



CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

MAYORAL COMMITTEE

Executive Mayor

30 June 2018

Herman Mashaba (Chairperson)

Councillors

30 June 2018

Vasco da Gama (Speaker of Council)

Funzela Ngobeni (Finance)

Leah Ruth Knott (Economic Development)

Reuben Mlungisi Masango (Development Planning and Urban Management)

Nonhlanhla Helen Makhuba (Transportation)

Nico De Jager (Environment and Infrastructure Services)

Mpho Phalatse (Health and Human Development)

Valencia Ntombi Khumalo (Corporate and Shared Services)

Michael Sun (Public Safety)

Nonhlanhla Sifumba (Community Development)

Mzobanzi Ntuli (Housing)

Dr Kevin Wax (Chief Whip)

Alex Christians (Chair of Chairpersons)

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

GRADING OF LOCAL AUTHORITY

The City of Johannesburg Metropolitan Municipality is a Grade Six Local Authority in terms of Item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.

CITY MANAGER

Ndivhoniswani Lukhwareni

CHIEF FINANCIAL OFFICER

Charity-Ann Wurayayi

REGISTERED OFFICE

Metropolitan Centre
158 Loveday Street
Braamfontein
Johannesburg
2001
Telephone:
+27 (0)11 407 - 6111
Facsimile:
+27 (0)11 339 - 5704

POSTAL ADDRESS

P O Box 1049
Johannesburg
2000

BANKERS

Standard Bank

AUDITORS

The Office of the Auditor-General : Gauteng
Registered Auditors
61 Central Street
Houghton
2198
PO Box 91081
Auckland Park
2006

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Index

The reports and statements set out below comprise the Annual Financial Statements:

	PAGE
Municipal Manager's approval of the Annual Financial Statements	5
Statement of Financial Position	6 - 7
Statement of Financial Performance	8
Statement of Changes in Net Assets as at 30 June 2018	9
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 13
Appropriation Statement	14 - 15
Accounting Policies	16 - 42
Notes to the Annual Financial Statements	43 - 116

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Index

AUC	Assets Under Construction
BESA	Bond Exchange South Africa
CJMM	City of Johannesburg Metropolitan Municipality
WIP	Work In Progress
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
DMTN	Domestic Medium Term Note
GRAP	Generally Recognised Accounting Practice
IFRS	International Financial Reporting Standards
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
IPSAS	International Public Sector Accounting Standards
JSE	Johannesburg Stock Exchange
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
NDR	Non-distributable Reserve
PAYE	Pay As You Earn
PPE	Property, plant and equipment
SARS	South Africa Revenue Services
SCA	Supreme Court of Appeal
UIF	Unemployment Insurance Fund
USDG	Urban Settlement Development Grant
VAT	Value Added Taxation

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Municipal Manager's approval of the Annual Financial Statements

I am responsible for the preparation of the Annual Financial Statements in terms of Section 126(1) of the Municipal Finance Management Act, which I have hereby signed on behalf of the Municipality.

The Annual Financial Statements have been prepared in accordance with MFMA and Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

Accounting Officer

Ndivhoniswani Lukhwareni

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand thousand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	78 040	84 334
Loans to Municipal Entities	4	841 658	1 043 145
Other financial assets	5	16 101	18 576
Finance lease receivables	6	105 200	81 102
Receivables from exchange transactions	7&9	6 819 286	5 023 878
Receivables from non-exchange transactions	8&9	945 192	1 054 444
VAT receivable		420 702	211 173
Financial assets at fair value	10	784 006	1 530 491
Cash and cash equivalents	11	1 821 806	2 781 090
		11 831 991	11 828 233
Non-Current Assets			
Investment property	12	1 000 144	1 014 946
Property, plant and equipment	13	40 837 179	38 790 851
Intangible assets	14	480 427	317 744
Heritage assets	15	580 330	580 330
Investments in ME's	16	628 500	596 356
Loans to Municipal Entities	4	6 387 712	6 743 942
Other financial assets	5	68 454	55 768
Finance lease receivables	6	132 362	226 716
Financial assets at fair value	10	2 052 797	2 268 902
		52 167 905	50 595 555
Total Assets		63 999 896	62 423 788
Liabilities			
Current Liabilities			
Loans and Borrowings	18	760 928	3 254 963
Finance lease obligation	19	38 274	44 605
Financial liabilities at fair value	10	156 219	150 387
Payables from exchange transactions	20	9 349 415	8 281 251
Unspent conditional grants and receipts	21	201 572	518 946
Other financial liabilities at fair value	25	-	14 060
		10 506 408	12 264 212
Non-Current Liabilities			
Loans from MEs	53	426 338	418 320
Loans and Borrowings	18	19 130 295	16 840 775
Finance lease obligation	19	113 039	150 710
Financial liabilities at fair value	10	450 398	672 074
Employee benefit obligation	23	1 076 024	1 205 441
Provisions	22	144 995	112 594
Deferred income	24	64 332	49 126
Consumer deposits	26	16 748	16 479
		21 422 169	19 465 519
Total Liabilities		31 928 577	31 729 731
Net Assets		32 071 319	30 694 057

* See Note 42

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand thousand	Note(s)	2018	2017 Restated*
Reserves			
Cashflow hedge reserve	55	-	(1 386)
Accumulated Surplus		32 071 321	30 695 444
Total Net Assets		32 071 321	30 694 058

* See Note 42

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Rendering of services	28	523 237	462 683
Rental of facilities and equipment		130 083	129 296
Agency services		242 068	236 778
Other revenue	30	864 464	691 140
Finance Income		1 506 204	1 374 455
Reversal of Impairment		29 007	29 825
Fair value adjustments	38	210 257	377 116
Total revenue from exchange transactions		3 505 320	3 301 293
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	9 087 956	7 912 381
Transfer revenue			
Government grants	29	9 206 115	9 094 055
Public contributions, donated and contributed property, plant and equipment		3 612	97 578
Fines, Penalties and Forfeits		211 547	239 806
Total revenue from non-exchange transactions		18 509 230	17 343 820
Total revenue		22 014 550	20 645 113
Expenditure			
Employee related costs	31	(6 146 101)	(5 632 813)
Remuneration of councillors	32	(156 206)	(139 593)
Depreciation and amortisation	33	(2 031 783)	(1 882 509)
Impairment losses	34	(67 622)	(102 312)
Finance costs		(2 631 348)	(2 464 375)
Debt Impairment	35	(881 806)	(612 639)
Transfers and Subsidies	36	(3 684 590)	(3 874 419)
Loss on disposal of assets and liabilities		(292 851)	(41 223)
General Expenses	37	(4 746 361)	(4 448 981)
Total expenditure		(20 638 668)	(19 198 864)
Surplus for the year		1 375 882	1 446 249

* See Note 42

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets as at 30 June 2018

Figures in Rand thousand	Hedging reserve	Accumulated Surplus	Total net assets
Balance at 01 July 2016	(5 370)	29 249 195	29 243 825
Changes in net assets			
Amount recognise directly in other comprehensive income during the year	3 984	-	3 984
Net income recognised directly in net assets	3 984	-	3 984
Surplus for the year	-	1 446 249	1 446 249
Total recognised income and expenses for the year as previously reported	3 984	1 446 249	1 450 233
Total changes	3 984	1 446 249	1 450 233
Opening balance as previously reported	(1 386)	29 136 035	29 134 649
Adjustments			
Prior year adjustments	-	1 559 404	1 559 404
Restated* Balance at 01 July 2017 as restated*	(1 386)	30 695 439	30 694 053
Changes in net assets			
Amount recognise directly in other comprehensive income during the year	1 386	-	1 386
Net income recognised directly in net assets	1 386	-	1 386
Surplus for the year	-	1 375 882	1 375 882
Total recognised income and expenses for the year	1 386	1 375 882	1 377 268
Total changes	1 386	1 375 882	1 377 268
	-	-	-
Balance at 30 June 2018	-	32 071 321	32 071 321

* See Note 42

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand thousand	Note(s)	2018	2017 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Cash receipts from customers		8 752 588	7 197 873
Grants		8 853 572	8 992 774
Finance income		943 110	1 238 704
		<u>18 549 270</u>	<u>17 429 351</u>
Payments			
Cash paid to suppliers and employees		(13 834 549)	(14 982 297)
Finance costs paid		(2 353 710)	(2 365 105)
		<u>(16 188 259)</u>	<u>(17 347 402)</u>
Net cash flows from operating activities	39	2 361 011	81 949
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of capital assets	8&13&14&	(4 477 253)	(3 620 313)
Loans redeemed from municipal entities		1 077 986	1 077 172
Net investment in sinking fund		959 473	400 000
Net finance lease receivables		(69 887)	68 432
Investment in Municipal entities		(32 144)	(53 814)
Other financial assets		2 475	18 092
Loans to Municipal Entities		(416 704)	(1 235 108)
Net cash flows from investing activities		(2 956 054)	(3 345 539)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		5 998 386	2 626 001
Repayment of Liabilities from MEs		8 018	(3 803)
Repayment of borrowings		(6 211 059)	(593 484)
Finance lease obligation		(44 002)	(51 434)
Repayment of post retirement benefits		(115 584)	(114 655)
Net cash flows from financing activities		(364 241)	1 862 625
Net increase/(decrease) in cash and cash equivalents		(959 284)	(1 400 965)
Cash and cash equivalents at the beginning of the year		2 781 090	4 182 055
Cash and cash equivalents at the end of the year	11	1 821 806	2 781 090

* See Note 42

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand thousand

Statement of Financial Performance

REVENUE

REVENUE FROM EXCHANGE TRANSACTIONS

Rendering of Service	655 597	(15 018)	640 579	523 237	(117 342)
Rental of facilities and equipment	159 680	(10 918)	148 762	130 083	(18 679)
Agency services	252 160	-	252 160	242 068	(10 092)
Other income	987 275	12 130	999 405	864 464	(134 941)
Interest received	1 516 486	(24 738)	1 491 748	1 506 204	14 456
Total revenue from exchange transactions	3 571 198	(38 544)	3 532 654	3 266 056	(266 598)

REVENUE FROM NON-EXCHANGE TRANSACTIONS

TAXATION REVENUE

Property rates	9 005 517	-	9 005 517	9 087 956	82 439
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TRANSFER REVENUE

Government grants	9 730 366	(116 285)	9 614 081	9 206 115	(407 966)
Public contributions and donations	-	-	-	3 612	3 612
Fines, Penalties and Forfeits	643 718	(194 000)	449 718	211 547	(238 171)

Total revenue from non-exchange transactions	19 379 601	(310 285)	19 069 316	18 509 230	(560 086)
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Total revenue	22 950 799	(348 829)	22 601 970	21 775 286	(826 684)
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EXPENDITURE

Employee Related costs	(6 666 905)	240 204	(6 426 701)	(6 146 101)	280 600
Remuneration of councillors	(160 691)	-	(160 691)	(156 206)	4 485
Depreciation and amortisation	(2 740 169)	19 450	(2 720 719)	(2 031 783)	688 936
Impairment losses	-	-	-	(67 622)	(67 622)
Finance costs	(2 684 196)	73 991	(2 610 205)	(2 631 348)	(21 143)
Allowance for impairment of current receivables	(812 713)	181 000	(631 713)	(881 806)	(250 093)
Transfers and Subsidies	(4 065 522)	232 741	(3 832 781)	(3 684 590)	148 191
General Expenses	(4 722 454)	(266 460)	(4 988 914)	(4 746 361)	242 553

Total expenditure	(21 852 650)	480 926	(21 371 724)	(20 345 817)	1 025 907
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Operating surplus	1 098 149	132 097	1 230 246	1 429 469	199 223
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(Loss) gain on disposal of assets	25 000	-	25 000	(292 851)	(317 851)
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Reversal of Impairment	-	-	-	29 007	29 007
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Fair value adjustments	-	-	-	210 257	210 257
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	25 000	-	25 000	(53 587)	(78 587)
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Surplus for the year	1 123 149	132 097	1 255 246	1 375 882	120 636
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City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand thousand

A detailed description of the variances that management considers as material is provided below:

Other Income

Under budget attributable to other income is as a result of the following:

Group Finance: Concerns arose with regards to billing of customers' accounts, a resolution was taken to temporarily halt the issuing of pre-termination and final notices.

Housing: Under-recovery of hostel income. This is as a result of units that became vacant due to maintenance.

Municipal portfolio account (Johannesburg Property Company) Registration of Servitudes - Due to lack of appetite from the market as result of their economic standing.

Rendering of services

Surcharges of electricity, refuse and water: The under-performance of surcharges is due to decreased consumer demand for the services.

Rental of facilities and equipment

Rent of Facilities and Equipment: Underperformance is as a result of low occupancy rates of council owned properties and vacant properties. Occupancy rates and rental collections continue to be affected by economic climate.

Community Development: The underperformance was due to decreased demand for municipal halls.

Property rates

The over performance is due to general inflation increase review of valuations as a result of supplementary valuation rolls that were processed this year. This resulted in net additional revenue.

Government grants

The following departments are under budget:

Transportation: Public Transport Network Operations Grant (PTNOG) not yet recognised as revenue, the expenditure has not occurred.

Housing: Gauteng Department of Human Settlements grant for the repair of hostels has not yet been fully spent.

Community Development: The operating grant of R16, 5 million has been received, however only R3, 5 of the related expenditure has been incurred.

Fines, Penalties and Forfeits

A decrease in traffic fines revenue collected from motorists and this is mainly attributable to the following:

The electronic speed enforcement contract (AARTO 3) has not been renewed. Only revenue generated from issuing hand written infringement notices to motorists in terms of (AARTO 1) is recognized.

Operational challenges experienced with the Service Level Agreement that was signed with the South African Postal Office.

Employee Related Cost

Basic salaries are under budget due to vacant positions not yet filled, as well as employee's resignations.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand thousand

Depreciation and amortisation

The under recovery is attributable to delays in completion of certain property, plant and equipment that still remain under-construction and are not ready for use at year-end.

Finance costs

A short term facility of R3 billion was used for 11 months for the year which increased finance cost, however long term borrowings were received in the last quarter of the financial year resulting in recognising interest for two months as opposed to 12 months. R 1.5bn from DBSA was received in May 2018 and R1.48bn from Nedbank in June 2018.

Allowance for impairment of current receivables

Debt Impairment is over budget mainly as a result of the following department/s:

Group Finance: Over budget is mainly due to the reduction in collection of revenue resulting in increased outstanding debtors balances.

Contracted services

Contracted Services are under budget, the variance is mainly attributable to the following departments:

Transportation Department: As a result of underspending on consultant and contractor fees.

City Manager: Due various projects such as Research on Youth Employment project and GEYODI project not taking place as anticipated, as a result of none submission by various universities for the requested information as required in terms of Supply Chain processes. The under spending also includes the none finalisation of Growth Development Strategy which could not be implemented as Group Strategy is still seeking clarity from the Private Office of the Executive Mayor.

Group Finance: Underspending is due to procurement processes that are currently on-going for revenue enhancement and IT solutions.

Environment and Infrastructure Services: Underspending on contract specialist and consultation fees.

General expenses

Group Finance - underspending is attributable to;

Legal expenses (ATTCOL), as a result of an initiative put in place by departments to properly review and analyze the related invoices prior to making any payments to contractors.

Postages - South African Post Office invoices that are under dispute with regards to printing and posting of customer statements.

Community Development: Under expenditure relates to municipal services (not yet billed out by the Propert Unit due to queries related to the lease agreement between the City and Department of Public Works) .

Economic Development: Underspending incurred on utilities, rental fees as well as marketing costs.

Transportation Department: Underspending on training, guarding of municipal buildings, conference and seminars as well as rental fees that are still to be settled with JRA.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

Figures in Rand thousand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2018											
Financial Performance											
Property rates	9 005 517	-	9 005 517	-		9 005 517	9 087 956		82 439	101 %	101 %
Service charges	655 597	(15 018)	640 579	-		640 579	523 237		(117 342)	82 %	80 %
Investment revenue	1 516 486	(24 738)	1 491 748	-		1 491 748	1 506 204		14 456	101 %	99 %
Transfers recognised - operational	-	-	-	-		-	9 206 115		9 206 115	- %	- %
Other own revenue	2 067 833	(192 788)	1 875 045	-		1 875 045	1 687 426		(187 619)	90 %	82 %
Total revenue (excluding capital transfers and contributions)	13 245 433	(232 544)	13 012 889	-		13 012 889	22 010 938		8 998 049	169 %	166 %
Employee costs	(6 666 905)	240 204	(6 426 701)	-	-	(6 426 701)	(6 146 101)	-	280 600	96 %	92 %
Remuneration of councillors	(160 691)	-	(160 691)	-	-	(160 691)	(156 206)	-	4 485	97 %	97 %
Debt impairment	(812 713)	181 000	(631 713)			(631 713)	(881 806)	-	(250 093)	140 %	109 %
Depreciation and asset impairment	(2 740 169)	19 450	(2 720 719)			(2 720 719)	(2 099 405)	-	621 314	77 %	77 %
Finance charges	(2 684 196)	73 991	(2 610 205)	-	-	(2 610 205)	(2 631 348)	-	(21 143)	101 %	98 %
Transfers and grants	(4 065 522)	232 741	(3 832 781)	-	-	(3 832 781)	(3 684 590)	-	148 191	96 %	91 %
Other expenditure	(4 722 454)	(266 460)	(4 988 914)	-	-	(4 988 914)	(5 039 212)	-	(50 298)	101 %	107 %
Total expenditure	(21 852 650)	480 926	(21 371 724)	-	-	(21 371 724)	(20 638 668)	-	733 056	97 %	94 %
Surplus/(Deficit)	(8 607 217)	248 382	(8 358 835)	-		(8 358 835)	1 372 270		9 731 105	(16)%	(16)%

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

Figures in Rand thousand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	9 730 366	(116 285)	9 614 081	-		9 614 081	-		(9 614 081)	- %	- %
Contributions recognised - capital and contributed assets	-	-	-	-		-	3 612		3 612	- %	- %
Surplus (Deficit) after capital transfers and contributions	1 123 149	132 097	1 255 246	-		1 255 246	1 375 882		120 636	110 %	123 %
Surplus/(Deficit) for the year	1 123 149	132 097	1 255 246	-		1 255 246	1 375 882		120 636	110 %	123 %
Capital expenditure and funds sources											
Total capital expenditure	-	-	-	-		-	4 527 591		4 527 591	- %	- %

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Statement of compliance

Basis of preparation and presentation

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the Municipal Finance Management Act (MFMA) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise.

Presentation Currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

Going Concern

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly where material. Where the error is immaterial, the full effect of the error is accounted for in the current year. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.1 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statements in conformity with GRAP, management is required to use professional judgment, estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Future actual results could differ from these estimates which may be material to the Annual Financial Statements. These estimates and underlying assumptions are reviewed on an ongoing basis. Effect of changes in estimates are accounted for on a prospective basis in the statement of financial performance.

Significant judgements include

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment of financial assets

Where objective evidence of impairment loss on financial assets measured at amortised cost exists, the present value of the future cash flows of the financial assets discounted at the financial asset's original effective rate is determined and compared to the carrying value of the financial assets. The carrying amount of asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognised in the statement of financial performance.

Allowance for slow moving, damaged and obsolete stock

Management determines an estimate of a selling price and direct cost to sell to determine the net realisable value of inventory items. Allowance for obsolete stock is recognised when stock is slow moving and/or will not be used. The difference between the cost of inventory and the net realisable value is recognised in the statement of financial performance.

Fair value estimation

Financial Instruments.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Such valuation techniques include using recent arm's length market transactions, reference to current market value of other similar instruments, discounted cash flow analysis and option pricing models. Quoted market prices or dealer quotes for similar instruments are used for long-term debt.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment of property, plant and equipment

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality then estimate the recoverable service amount of the asset.

The recoverable amounts of cash-generating units and individual assets are determined based on the higher of value in use and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may have an impact on estimations and may then require a material adjustment to the carrying value of cash-generating units and individual assets.

The excess of the carrying amounts over the recoverable amount is recognised as impairment loss in the statement of financial performance.

Provisions, contingent liabilities and contingent assets

Management's judgment is required when recognising and measuring provisions, contingent liabilities and contingent assets. Provisions are raised based on current information available to management.

A provision is recognised when the municipality has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Payables(Consumers with credit balances)

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

City of Johannesburg (COJ) invoices clients for the following revenue components; electricity on behalf of City Power, water on behalf of Joburg Water, refuse on behalf of Pikitup and rates and taxes on behalf of COJ Core Administration. Revenue and corresponding debtor is allocated to each municipal entity based on the actual consumption/billing.

With regards to credit balances in consumer debtors, COJ allocates credit balances applicable to each entity using the billing trend for customers with credit balances, allocation takes into account that credit balances are typically utilised through consumption of services to be provided by COJ in the future. Management have applied judgment in determining the allocation basis, this is consistent with prior financial years.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/ (income) include a discount rate. Any changes in these assumptions will impact the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year which is used to determine the present value of estimated future cash outflows expected to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainties.

Impairment of receivables

Impairment of receivables represent management's best estimate based on an assessment of the extent to which debtors have defaulted on payments due and their ability to make payments. This is performed on each category of debtors across all debtor classes.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Useful life of PPE

The useful life of assets are based on management's estimates. Management considers the impact of technology, service requirements and the required return on assets to determine the optimum useful life expectation, where appropriate. The estimated residual value of assets is also based on management's judgment which takes into account the condition of assets at the end of their useful lives.

Budget information

For differences between budget and actual amounts management considers the amount and the nature of the difference and makes a judgement as to which differences are regarded as material. All material differences are explained in the notes to the annual financial statements.

1.3 Investment property

Definition

Investment properties are immovable land and/or buildings that are held to earn rental income and/or for capital appreciation. Investment property excludes owner-occupied property that is used in the production or supply of goods or services or for administrative purposes, or property held to provide a social service.

Recognition

Investment property is recognised as an asset when and only when it is probable that future economic benefits or service potential that is associated with the investment property will flow to the entity and the cost or fair value can be reliably measured.

Initial measurement

Investment property is initially measured at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or nominal value), its cost is its fair value as at the date of acquisition.

Subsequent measurement.

Cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Investment property comprise of land which is not depreciated.

Investment properties, with the exception of land, are depreciated on the straight line basis over their expected useful lives as follows:

Item	Useful life
Property - Land	Unlimited

Transfers to, or from, investment property shall be made when, and only when, there is a change in use.

Derecognition

The municipality derecognises investment property on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the disposal of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property which is recognised in surplus or deficit.

1.4 Property, plant and equipment

Definition

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Property, plant and equipment (continued)

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property held for strategic purposes

Land and buildings held for strategic purposes is property that, although not currently used as property plant and equipment, it is likely to be used in the production of or supply of goods and services or for administrative purposes in future because of certain legislation, policies, decisions or plans adopted by the Municipality.

Recognition

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted from the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and also depreciated separately.

Item	Depreciation method	Average useful life (Years)
Buildings	Straight line	30
Plant and Equipment	Straight line	2-15
Furniture and fittings	Straight line	7
Motor vehicles	Straight line	3-5
Office equipment	Straight line	3-5
Infrastructure	Straight line	10-30
Community	Straight line	3-30
Emergency Equipment	Straight line	5-15
Land	Straight line	Unlimited
Bins and containers	Straight line	5-10
Library Books	Straight line	10
Specialised vehicles	Straight line	12-15
Other	Straight line	4-40

Subsequent measurement

PPE are shown at cost less accumulated depreciation and any accumulated impairment. Land is measured at cost less any impairment in value and is not depreciated since the useful life is considered to be indefinite.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready and available for its use as intended by management.

Property, plant and equipment with the exception of land are depreciated on a straight line basis over their expected useful lives to their estimate residual values. The depreciation method used for each asset reflects the pattern in which the asset's economic benefits or service potential has been expected to be consumed by the Municipality.

Accounting Policies

1.4 Property, plant and equipment (continued)

Assets held under finance leases are depreciated based on the lower of lease term or expected useful life. When it is reasonable certain that ownership will be transferred to the lessee at end of lease term, the leased asset will be depreciated over the useful life of the asset. Depreciation is recognised in the statement of financial performance.

Subsequent expenditure is included in the cost of the asset when incurred, if it is probable that such expenditure will result in future economic benefits associated with the item flowing to the Municipality and the cost can be measured reliably.

The Municipality assesses at each reporting date whether there is any indication that its expectation about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such exists, the Municipality will revise the expected useful life and/or residual value accordingly. The change will be accounted for as a change in an accounting estimate in accordance with the relevant GRAP standard. In assessing whether there is any indication that the expected useful life of an asset has changed, the Municipality considers; the composition of the asset change during the reporting period and the factors influencing the change in the use of the asset. In assessing any indications pertaining to the residual value, the Municipality considers any changes regarding the expected timing of disposal of the asset.

The Municipality shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, it shall estimate the recoverable service amount of the asset.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Derecognition

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is the difference between the sales proceeds and the carrying value, and is recognised in the statement of financial performance.

The municipality derecognises property, plant and equipment on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the property, plant and equipment. Such difference is recognised in the statement of financial performance.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Intangible assets

Definition

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Recognition

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Initial measurement

Intangible assets are initially recognised at cost. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Subsequent measurement

Under the cost model intangible assets are carried at cost less any accumulated amortisation and impairment losses.

Amortisation commences when the intangible assets are available for their intended use. The amortisation period and method for intangible assets with finite useful lives are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with finite useful life are amortised on the straight-line basis over their useful lives.

Intangible assets with an indefinite useful life are not amortised but will be tested for impairment when there is an indicator. The Municipality reviews the useful life of an intangible asset with an indefinite useful each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Item

Computer software / Licences

Useful life

3-10 years

Derecognition

The gain or loss arising from the disposal or retirement of an item of intangible assets is determined as the difference between the sales proceeds and the carrying value which is recognised in the statement of financial performance.

The municipality derecognises intangible assets; on disposal, when there is no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of intangible assets is the difference between the net disposal proceeds, if any, and the carrying amount of the intangible assets which is recognised in the statement of financial performance.

Accounting Policies

1.6 Heritage assets

Definition

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

A heritage asset shall be recognised as an asset if, and only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- the cost or fair value of the asset can be measured reliably.

Initial measurement

A heritage asset that qualifies for recognition as an asset shall be measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Subsequent measurement.

Heritage assets are recognised at cost less accumulated impairment. Due to high residual values and long economic lives, The municipality does not depreciate heritage assets.

Transfers to heritage assets are made only when the asset meets the definition of a heritage asset, and transfers from heritage assets are made only when the asset no longer meets the definition of a heritage asset. Principles of assets transferred to heritage assets apply up until the date of transfer.

Heritage assets are not depreciated but the Municipality shall assess at each reporting date whether there is an indication that it may be impaired.

Derecognition

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from their use or disposal.

The gain or loss arising from disposal and derecognition is determined as the difference between the net disposal proceeds, if any, and the carrying amount.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Investments in ME's

In the municipality's separate annual financial statements, investments in investments in me's are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

Investments in shareholder loans that are accounted for in accordance with the accounting policy on Financial Instruments in the consolidated annual financial statements, are accounted for in the same way in the controlling entity's separate annual financial statements.

Accounting Policies

1.8 Investment in joint ventures

A joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Investment in joint venture is accounted at cost in the separate financial statement of the municipality.

Dividend received from the joint venture is accounted for in the statement of comprehensive income.

1.9 Financial instruments

Classification

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Financial Assets

A financial asset is a) cash; b) a residual interest of another entity; or (c) a contractual right to:

- (i) Receive cash or another financial asset from another entity; or
- (ii) Exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Financial assets consist of cash and cash equivalent, deposits, receivables and investments.

Financial assets other than those at fair value are assessed for indicators of impairment at the end of each reporting period. Impairment is considered when there is objective evidence that is as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Municipality has transferred substantially all risks and rewards of ownership, or when the enterprise loses control of contractual rights that comprise the assets.

To the extent that a financial asset has a maturity period of longer than 12 months, the value of these instruments will be reflected as a non-current asset.

The classification of financial assets depends on their nature and purpose, and is determined at the time of initial recognition (trade date).

Investments at Cost

Financial instruments (at cost) are investments in residual interests that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These include investments in municipal entities. Financial instrument are initially held at cost and subsequently measured at cost less any impairment. Impairment loss is recognised in the statement of financial performance.

Accounting Policies

1.9 Financial instruments (continued)

Financial assets at fair value

Financial assets at fair value comprise of derivatives and non-derivative financial instruments designated at fair value. On initial recognition the financial assets are measured at fair value. Subsequent to initial recognition, all changes to fair value are recognised through the statement of financial performance.

Cash and cash equivalent

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Receivables from exchange transactions

Receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of financial performance when there is objective evidence that the asset is impaired.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable are impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the statement of financial performance under operating expenses. When receivables are uncollectible, it is written off against the allowance account for receivables once council approval is obtained. Subsequent recoveries of amounts previously written off are credited in the statement of financial performance.

All receivables are on accrual basis except for VAT which is on a cash basis.

Accounting Policies

1.9 Financial instruments (continued)

Financial liabilities

A financial liability is any liability that is a contractual obligation to: a) deliver cash or another financial asset to another entity; or b) exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Financial liabilities consist of interest-bearing borrowings, trade and other payables, bank overdrafts and interest-bearing money market borrowings, liabilities categorised at fair value through profit or loss and derivatives held for hedging (refer to accounting policy on hedge accounting).

Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs.

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, except for financial liabilities at fair value through profit or loss or hedging instruments, which are measured at fair value.

Finance costs on financial liabilities at amortised cost are expensed in the statement of financial performance in the period in which they are incurred using the effective interest rate method. In addition, gains and losses on these financial liabilities are recognised in the statement of financial performance when the liability is derecognised.

Gains and losses on financial liabilities at fair value through profit or loss arise from fair value movements and related transaction costs on these liabilities. These gains and losses are recognised in the statement of financial performance in the period in which they are incurred.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or when it expires.

Loans from municipal entities

Loans from municipal entities are classified as financial liabilities which are initially recognised at fair value and subsequently measured at amortised cost.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Hedge Accounting (Derivatives)

The municipality holds derivative financial instruments to hedge its interest rate risk exposures.

On initial designation of the derivative as the hedging instrument, the municipality formally documents the relationship between the hedging instrument and hedged item. This includes the risk management objectives and strategy in undertaking the hedge transaction, hedged risk, and the methods that will be used to assess the effectiveness of the hedging relationship. The municipality conducts an assessment at the inception of the hedge relationship and on an on-going basis, to determine if the hedging instruments are "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent. A cash flow hedge pertains to a highly probable transaction where exposure results in variation in cash flows that could ultimately affect reported statement of financial performance.

Derivatives are recognised initially at fair value, and attributable transaction costs are recognised in the statement of financial performance as incurred.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect the statement of financial performance, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in net assets. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the statement of financial performance.

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in the statement of financial performance.

Loans to (from) economic entities

These include loans to and from controlling entities, fellow shareholder loans, shareholder loans, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Accounting Policies

1.9 Financial instruments (continued)

Held to maturity

Receivables from exchange transactions

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Accounting Policies

1.10 Statutory receivables (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.11 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

The municipality recognises assets and liabilities acquired under finance leases as assets and the associated obligation as liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments.

The finance lease assets are depreciated at the same rates as owned property unless the municipality will not obtain ownership. Where there is no reasonable certainty that the municipality will obtain ownership by the end of lease term, the leased assets are depreciated over the shorter of the lease term and its useful life.

Minimum lease payments are apportioned between the finance charge and the outstanding capital portion, using the effective interest rate method. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred. .

Operating leases - lessor

Operating lease revenue is recognised as revenue on the straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The leased assets are presented in the statement of financial position according to the nature of assets. The municipality applies the same depreciation policy for leased assets (operating) as the normal depreciation policy for similar assets.

Operating leases - lessee

Operating lease payments are recognised as an expense on the straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on the straight-line basis.

1.12 Inventories

Definition

Inventories are assets in the form of materials or supplies to be consumed in the production process or distributed in the rendering of services, held for sale or distribution in the ordinary course of operations, or in the process of production for sale or distribution.

Recognition

Inventory is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value can be measured reliably.

Initial measurement

Accounting Policies

1.12 Inventories (continued)

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, their costs are their fair value as at the date of acquisition.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Subsequent measurement

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution. Management estimate, based on their assessment of quality and volume, the extent to which inventory on hand at the reporting date will be sold below cost.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The valuation of inventories is performed using the weighted average method.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Derecognition

The municipality derecognises inventory on disposal, or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of inventory is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the inventory. Such difference is recognised in statement of financial performance.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

1.14 Internal reserves

Compensation for occupational injuries and diseases (COID) reserve

The Compensation for Occupational Injuries and Diseases Act (Act 130 of 1993) is aimed to provide for payment of medical treatment and compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees in the course of their employment, or for death resulting from such injuries or diseases. The contribution to the COID fund is 0.75% of the salary expense.

The municipality is an exempt employer in terms of Section 84 (1) (a) (ii) & (2) and as such does not pay any assessments to the COID Commissioner. In terms of the exempt status the municipality is mandated to establish its own fund and administers this fund in terms of the COID Act.

The certificate of exemption issued by the Commissioner and prescribed by the COID Act requires the municipality to deposit cash and/or securities with the Commissioner, the market values of which in aggregate shall not be less than the capitalised value of the Municipality's continuing liability as at 31 December of each year.

The continuing liability is that of annual pensions, the capitalised value of which is determined on the basis of an actuarial determination prescribed by the Commissioner.

A COID reserve has been established to equate to the value of the continuing liability. The market value of the securities is determined annually by the Commissioner, and the Municipality is required to meet any shortfall in the aggregate value of the securities as at 31 December. Monthly pensions are funded by transferring funds from the reserve to the expense account in the statement of financial performance.

1.15 Budget information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.16 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.17 Employee benefits

Short-term employee benefits

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.17 Employee benefits (continued)

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

The Municipality recognises the expected cost of bonus, incentive and performance related payments when and only when: (a) it has a present legal or constructive obligation to make such payments as a result of past events, (b) a reliable estimate of the obligation can be made.

Defined contribution plans

A defined contribution plan is a post-employment pension plan under which the municipality pays fixed contributions into a separate entity (a fund). The municipality has no further payment obligations once the contributions have been paid. Accordingly, the municipality recognises the contributions to the scheme as an expense when the employees have rendered a service.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Accounting Policies

1.17 Employee benefits (continued)

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit funds are actuarially valued on the projected credit method.

Consideration is given to any event that could impact the funds up to end of the reporting period where the valuation is performed at an earlier date.

Past service costs are recognised immediately in the statement of financial performance in the reporting period in which the plan is amended.

Actuarial gains and losses are recognised in full in the statement of financial performance when they arise.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement. The Municipality does not only account for the legal obligation under formal terms but also for any constructive obligation that arises from the entity's informal practices.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation less fair value of planned assets out of which obligations are to be settled directly, plus any liability that may arise as a result of the minimum funding requirement.

Multi-employer plans

The municipality classifies a multi-employer plan either as the defined contribution plan or the defined benefit plan. Under the defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

Under the defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

Gratuities

The economic entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

Actuarial gains and losses are recognised in full in the period in which they arise as income or expenditure.

Bonus pensionable service and medical boarding's.

The benefits of Bonus Pensionable Service and Medical Boardings are afforded to members of certain funds in terms of the applicable rules of the relevant funds. The payments are accounted for in the statement of financial performance in the period in which it is paid.

Accounting Policies

1.18 Provisions and contingencies

Provisions are recognised when the municipality has a present obligation (legal or constructive) as a result of a past event and:

- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Expense relating to provisions is presented in the statement of financial performance.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Where the effect of the time value of money is material, the amount of the provision is discounted to present value at the discount rate which is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

Additional disclosures of estimates of provisions are included in the provisions note.

Contingent assets and contingent liabilities are not recognised but are separately disclosed. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Accounting Policies

1.18 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The City will recognise a provision if the definition and recognition criteria are met and if it fails to meet the criteria, a contingent liability will be disclosed.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, the municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

Revenue from exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange

Revenue is recognised at fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue from sale of Bus ticket points

Revenue from the sale of ticket points are accounted for as a separately identifiable component of a sale for normal points and bonus points. Each point is equivalent to one Rand value. Bonus points are earned by customers only on purchases of points above the value of R50. Any bonus points not redeemed in 36 months (3 years) are subject to expiry thereafter and any deferred revenue previously recognised is then recognised as revenue.

Revenue arising from sale of bus tickets for both normal and bonus points is initially accounted for as deferred revenue (liability) in the statement of financial position and only recognised as revenue upon redemption of normal or bonus points, or upon the expiry date.

Revenue is recognised at the fair value for normal points and for bonus points revenue is recognised at fair value which is equivalent to the cost of transferring the points that is the consideration allocated to the bonus points and is measured by reference to the amount which the bonus points could be sold separately.

At the end of each period, deferred revenue is recognised which is measured at fair value of points earned which are yet to be redeemed.

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When the specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Income from agency services

Revenue arising from situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of commission or fee payable to the municipality for services performed.

Interest revenue

Interest revenue is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised on a time- proportion basis, in surplus or deficit, using the effective interest rate method.

1.20 Revenue from non-exchange transactions

Revenue is a gross inflow of economic benefits or service potential received which represents an increase in the net assets, other than increases relating to contributions from owners.

Non-exchange transactions are transactions where the entity receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions are generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

An inflow of resources from non-exchange transactions recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines :

- Traffic fines issued in terms of the Criminal Procedures Act
- Traffic fines issued in terms of the Administrative Adjudication of Road Traffic Offences Act (AARTO ACT).

Criminal Procedures Act fines:

These fines are issued in terms of the Criminal Procedures Act and are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified day (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process).

Initial recognition:

An asset acquired through a non- exchange transaction shall initially be measured at fair value at the date of acquisition which is the best estimate of the inflow of economic benefits. An inflow of resources from a non- exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

There is uncertainty regarding the probability of the flow of economic benefits in respect of criminal procedure act fines. Legal processes have to be undertaken before the criminal procedure act fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. Where a reliable estimate cannot be made of revenue from summonses, the Municipality cannot recognise revenue and receivable until this judicial process has been completed and a reliable estimate can be made.

Subsequent measurement

IGRAP1 states that the assessment and recognition of an impairment is an event that takes place subsequent to the initial recognition of revenue charged. An entity assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment should not be made at the time of initial recognition.

AARTO traffic fines

These are fines issued in terms of the AARTO Act by way of notices to offenders which specify the value of the fine that must be paid, along with any discount that can be applied if the fine is paid within a specific period of time.

Initial recognition

An asset acquired through a non- exchange transaction shall initially be measured at fair value at the date of acquisition which is the best estimate of the inflow of economic benefits. An inflow of resources from a non- exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

The COJ is legally entitled to 50% of the face value of the fines, taking into account the best estimate of the inflow of economic benefits in terms of GRAP 23.

In terms of the AARTO ACT par 32(1) and (2), RTIA is legally entitled to receive 50% of the face value of such fine plus other administrative cost so incurred as compensation for their services in collecting and adjudication process.

IGRAP1 states that the assessment and recognition of an impairment is an event that takes place subsequent to the initial recognition of revenue charged. An entity assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment should not be made at the time of initial recognition

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Conditional grants

Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the municipality initially incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. Revenue on such grants is recognised when the qualifying expenditure has been incurred and to the extent that conditions have been complied with.

Unconditional grants

Unconditional grants also includes grants with restrictions since restrictions do not include a requirement that the transferred asset, or future economic benefits or service potential be returned to the transferor if the asset is not deployed as specified, hence there is no obligation to the municipality.

The municipality recognises asset and revenue from unconditional grants upon receipt and/or when resources transferred meet the criteria for recognition as an asset and there is also no present obligation to the municipality to refund transferred resources to the transferor. Unconditional grants are measured at their fair value .

Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier. When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Revenue from rates is measured using gazetted tariffs.

Public contributions and donations including goods in-kind donations

Public contributions and donations are voluntary transfers of assets including cash or other monetary assets.

Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations.

Public contributions and donations (other than services in-kind) are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Goods in-kind are recognised as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Public contribution and donations including goods in-kind are measured at their fair value as at the date of acquisition.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.21 Investment income

Investment income comprises interest income on funds invested. Investment income is recognised on a time-proportion basis using the effective interest method.

1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Inkind services

The municipality does not recognise services in kind as revenue or assets, but separately discloses the nature and type of major classes of services in kind as a note to the financial statements.

1.24 Unauthorised expenditure

Unauthorised expenditure is any expenditure incurred by a municipality otherwise than in accordance with the approved budget as well as expenditure exceeding the limits of the amounts appropriated for in the different votes in the approved budget.

Depending on circumstances, identified unauthorised expenditure will be authorised by council in an adjustment budget, certified by municipal council as irrecoverable and written off by the council or recovered from a liable official or political office bearer. In cases where unauthorised expenditure is recoverable from an official or political office bearer this resulting from necessary investigations, revenue and receivables are recognised. Unauthorised expenditure is disclosed in the notes to the financial statements.

1.25 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain, and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure which was incurred and identified during the financial year and also condoned by the council in terms of the MFMA, is only disclosed in the notes to annual financial statements. However, fruitless and wasteful expenditure which was incurred and identified during the financial year but failed to be condoned by the council is initially recognised as expenditure based on its nature and after further investigations classified to receivables and income. Where it is not possible to recover the revenue recognised from fruitless and wasteful, the receivable is written-off following proper write off processes in terms of the MFMA.

1.26 Irregular expenditure

Irregular expenditure is expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the MFMA, Municipal Systems Act or the Public Office-Bearers Act, and which has not been condoned in terms of the MFMA.

Irregular expenditure which was incurred and identified during the financial year and also condoned by the council in terms of MFMA, is only disclosed in the notes to annual financial statements. Irregular expenditure which was incurred and identified during the current financial year but was still waiting condonement by a council at year end, is only disclosed in the note to financial statements.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Management is considered a related party, and comprises of the councillors, Executive Mayor, Mayoral Committee Members, City Manager, Chief Operating Officer, Executive Directors and Group Heads.

Close family members of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the municipality.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Related party relationships where control exists are disclosed. The municipality discloses the nature of the related party relationship as well as information about those transactions and outstanding balances as a note to the financial statements.

1.28 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

1.29 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.30 Commitments

A commitment is a contract that is non-cancelable or only cancelable at significant cost, to the extent that the amount has not been recorded elsewhere in the financial statements.

Commitments are further split into capital and operating commitments.

Capital commitments are amounts committed to acquire goods and services which are of capital in nature i.e. upgrading and/or construction of assets.

Operating commitments are amounts committed to acquire day-to-day goods and services required to sustain municipality's business operations.

These commitments are disclosed in the notes to the annual financial statements.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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2. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

In the current financial year, the Municipality has adopted effective new and revised standards and its interpretations issued by ASB. However, the municipality only adopted effective standards which are relevant to its business operations. :

The following Standards and Interpretations were in issue but not yet effective:

<u>Name</u>	<u>Effective Date</u>
GRAP 20 - Related Parties	Not yet effective
GRAP 32 - Service Concession arrangements: Grantor	Not yet effective
GRAP 34 - Separate financial statements	Not yet effective
GRAP 35 - Consolidated financial statements	Not yet effective
GRAP 36 - Investment in associates and Joint ventures	Not yet effective
GRAP 37 - Joint Arrangements	Not yet effective
GRAP 38 - Disclosure in interest in other entities	Not yet effective
GRAP 108 - Statutory receivables	Not yet effective
GRAP 109 - Accounting by principles and agents	Not yet effective
GRAP 110 - Living and non-living resources	Not yet effective

Above-mentioned standards and interpretations which are relevant to the municipality's business operations will be adopted once they become effective.

The municipality applied the principles established in the Standard of GRAP that has been issued, but not yet effective, in developing an appropriate accounting policy dealing with the Related Parties (GRAP 20).

Preliminary investigations indicated that, other than additional disclosure, the impact of the new standards on the financial statements will be minimal).

3. INVENTORIES

Consumable stores	75 767	82 756
Housing stock	2 273	1 578
	78 040	84 334

Cost of inventory expense is included under general expenses.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
4. LOANS TO MUNICIPAL ENTITIES		
Shareholder Loans		
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 17.5% Maturity = 30 June 2026	581 814	581 814
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 14.5% Maturity 30 June 2026.	42 979	42 979
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 15% Maturity 30 June 2018.	-	60 634
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 14.5% Maturity 30 June 2018.	-	4 338
	624 793	689 765
Concessionary Loans		
The Johannesburg Metro Trading Company(Pty) Ltd Terms and conditions: Rate range = 11.89% Maturity = 30 August 2035	1 550 508	1 421 132

The loan of R 1 302 551 354 was issued to Metro Trading company on the 1st of September 2015 with a capital and interest payment grace period of three years.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
4. LOANS TO MUNICIPAL ENTITIES (continued)		
Conduit loans		
PIKITUP Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.18% Maturity = 30 June 2026	121 055	121 055
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 11.23% Maturity = 30 June 2026	219 351	235 986
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.56% Maturity = 30 June 2027	230 399	-
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 12.21% Maturity = 30 June 2018	-	78 595
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2019	68 261	129 504
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2020	138 800	197 694
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2021	128 755	163 171
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate 9.31% Maturity = 30 June 2022	212 873	254 861
City Power Johannesburg (Pty) Ltd Terms and conditions: Rate 9.65% Maturity = 30 June 2023	36 266	41 654
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate = 9.88% Maturity = 30 June 2028	57 080	57 080
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.56% Maturity = 30 June 2027	131 021	-
Johannesburg Metropolitan Bus Services (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2018	-	884
Johannesburg Power (Pty) Ltd Terms and conditions: Rate = 10.18% Maturity = 30 June 2024	666 328	743 086
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 9.88% Maturity = 30 June 2025	384 021	420 342
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 11.23% Maturity = 30 June 2026	400 918	430 283
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = Jibar less 35bp Maturity = 15 May 2026	-	36 280
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2018	-	83 541
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2019	63 617	120 693
Johannesburg Water (Pty) Ltd Terms and conditions: Rate = 10.9% Maturity = 30 June 2020	136 117	193 872

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
4. LOANS TO MUNICIPAL ENTITIES (continued)		
Johannesburg Water (Pty) Ltd	331 464	372 897
Terms and conditions: Jibar plus 70pb		
Maturity = 15 May 2026		
Johannesburg Water (Pty) Ltd	128 979	163 456
Terms and conditions: Rate = 10.9%		
Maturity = 30 June 2021		
Johannesburg Water (Pty) Ltd	180 638	216 269
Terms and conditions: Rate = 9.31%		
Maturity = 30 June 2022		
Johannesburg Water (Pty) Ltd	432 515	496 773
Terms and conditions: Rate = 9.65%		
Maturity = 30 June 2023		
Johannesburg Water (Pty) Ltd	602 749	672 184
Terms and conditions: Rate = 10.18%		
Maturity = 30 June 2024		
Pikitup Johannesburg (Pty) Ltd	628	628
Terms and conditions: Rate = 14.15%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	2 937	2 937
Terms and conditions: Rate = 12.42%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	5 785	5 785
Terms and conditions: Rate = 10.2%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	19 701	19 701
Terms and conditions: Rate = 9%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	30 171	30 171
Terms and conditions: Rate = 10.2%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	14 379	14 379
Terms and conditions: Rate = 12.21%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	7 885	7 885
Terms and conditions: Rate range = 12.21%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	19 983	19 983
Terms and conditions: Rate range = 12.21%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	14 738	14 738
Terms and conditions: Rate range = 10.78%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	15 309	15 309
Terms and conditions: Rate range = 10.4%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	22 398	22 398
Terms and conditions: Rate range = 9.31%		
Maturity = 30 June 2026		
Pikitup Johannesburg (Pty) Ltd	27 265	27 265
Terms and conditions: Rate range = 9.65%		
Maturity = 30 June 2026		
City Power Johannesburg (Pty) Ltd	531 457	581 722
Terms and conditions: Rate range = 9.88%		
Maturity = 30 June 2025		
Pikitup Johannesburg (Pty) Ltd	60 065	-
Terms and conditions: Rate range = 11.23%		
Maturity = 30 June 2029		
Johannesburg Metropolitan Bus Services (Pty) Ltd	295 584	323 541
Terms and conditions: Rate = 9.88%		
Maturity = 30 June 2025		

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
4. LOANS TO MUNICIPAL ENTITIES (continued)		
Pikitup Johannesburg (Pty) Ltd Terms and conditions: Rate range = 9.88% Maturity = 30 June 2027	104 982	104 982
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 10.9% Maturity = 30 June 2018	-	4 965
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 9% Maturity = 30 June 2019	2 984	5 713
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 10.4% Maturity = 30 June 2020	5 055	7 216
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 10.4% Maturity = 30 June 2021	6 152	7 814
The Johannesburg Fresh Produce (Pty) Ltd Terms and conditions: Rate range = 9.31% Maturity = 30 June 2022	14 716	17 619
	<u>5 873 381</u>	<u>6 464 911</u>
Less impairment of loans to Municipal Entities	(819 312)	(788 721)
	5 054 069	5 676 190
Non-current assets	6 387 712	6 743 942
Current assets	841 658	1 043 145
	7 229 370	7 787 087
Reconciliation of provision for impairment of loans to municipal entities		
Opening balance	788 721	761 467
Additional impairment - Pikitup Johannesburg (Pty) Ltd	59 432	57 080
Reversal of impairment - Johannesburg Metropolitan Bus Services (Pty) Ltd	(28 841)	(29 826)
	819 312	788 721

Impairment of loan to Pikitup Johannesburg (Pty) Ltd

The City had entered into a concession with the entity where it agreed to consistently settle interest that becomes due. Although Pikitup has significantly improved its solvency and liquidity position, the continued existence of the concession implies the existence of risk in defaulting.

Reversal of impairment - Johannesburg Metropolitan Bus Services (Pty) Ltd

The reversal of impairment relates to the amount recovered from the entity.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
5. OTHER FINANCIAL ASSETS		
At amortised cost		
Housing Selling scheme loans	41 726	41 833
Terms and conditions		
Other loans and receivables	42 829	32 511
Terms and conditions		
	84 555	74 344
Non-current assets		
At amortised cost	68 454	55 768
Current assets		
At amortised cost	16 101	18 576
6. FINANCE LEASE RECEIVABLES		
Gross investment in the lease due		
- within one year	111 702	97 733
- in second to fifth year inclusive	160 835	272 614
	272 537	370 347
less: Unearned finance revenue	(34 975)	(62 529)
Present value of minimum lease payments receivable	237 562	307 818
	237 562	307 818
Present value of minimum lease payments due		
- within one year	105 200	81 102
- in second to fifth year inclusive	132 362	226 716
	237 562	307 818
Non-current assets	132 362	226 716
Current assets	105 200	81 102
	237 562	307 818
COJ entered into a Finance lease on 1 March 2012 with various MOEs for specialised vehicles. The interest rate implicit on the agreement is 10%.		
The unguaranteed residual values of assets leased under finance lease at the end of the reporting period amount to R 67 393 (2017: R (67 393)).		
7. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Prepayments	3 252	106 777
Operating lease receivables	20 902	19 734
Sundry debtors	426 051	459 018
Fruitless and wasteful expenditure	14 407	5 343
Accrued VAT	364 954	307 680
Kelvin power	13 779	13 202
Related party debtors	5 957 194	4 095 421
Consumer debtors - Rentals	18 747	16 703
Total trade and other receivables	6 819 286	5 023 878

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
8. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Fines	106 096	115 614
Top Structure Debtors	248 649	294 620
Consumer debtors - Rates	590 447	644 210
	945 192	1 054 444
9. CONSUMER DEBTORS DISCLOSURE		
Gross balances		
Consumer debtors - Rates	4 361 547	3 767 981
Consumer debtors - Housing Rentals	556 393	469 108
	4 917 940	4 237 089
Less: Allowance for impairment		
Consumer debtors - Rates	(3 771 100)	(3 123 771)
Consumer debtors - Housing Rentals	(537 646)	(452 405)
	(4 308 746)	(3 576 176)
Net balance		
Consumer debtors - Rates	590 447	644 210
Consumer debtors - Housing Rentals	18 747	16 703
	609 194	660 913
Rates		
Current (0 -30 days)	162 180	198 245
31 - 60 days	129 029	46 892
61 - 90 days	20 598	37 517
91 - 120 days	59 184	63 165
121 - 365 days	47 483	38 343
> 365 days	171 973	260 048
	590 447	644 210
Housing rentals		
Current (0 -30 days)	7 991	8 650
31 - 60 days	138	532
61 - 90 days	137	396
91 - 120 days	137	635
121 - 365 days	148	442
> 365 days	10 196	6 048
	18 747	16 703

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
9. CONSUMER DEBTORS DISCLOSURE (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	210 408	141 791
31 - 60 days	161 962	76 480
61 - 90 days	40 389	60 374
91 - 120 days	101 383	66 831
121 - 365 days	483 342	378 231
> 365 days	1 761 330	1 578 084
	2 758 814	2 301 791
Less: Allowance for impairment	(2 441 913)	(1 915 641)
	316 901	386 150
Industrial/ commercial		
Current (0 -30 days)	178 685	148 870
31 - 60 days	137 065	60 327
61 - 90 days	3 543	21 649
91 - 120 days	50 946	58 554
121 - 365 days	200 339	259 704
> 365 days	1 379 146	1 317 570
	1 949 724	1 866 674
Less: Allowance for impairment	(1 685 779)	(1 601 654)
	263 945	265 020
National and provincial government		
Current (0 -30 days)	5 427	5 106
31 - 60 days	26 958	3 950
61 - 90 days	9 087	2 268
91 - 120 days	12 984	1 062
121 - 365 days	72 595	10 137
> 365 days	82 351	46 101
	209 402	68 624
Less: Allowance for impairment	(181 054)	(58 881)
	28 348	9 743
Total		
Current (0 -30 days)	394 521	295 767
31 - 60 days	325 985	140 757
61 - 90 days	53 019	84 291
91 - 120 days	165 313	126 447
121 - 365 days	756 276	648 073
> 365 days	3 222 827	2 941 755
	4 917 941	4 237 090
Less: Allowance for impairment	(4 308 747)	(3 576 177)
	609 194	660 913
Less: Allowance for impairment		
Current (0 -30 days)	(224 349)	(88 871)
31 - 60 days	(196 818)	(93 333)
61 - 90 days	(32 284)	(46 378)
91 - 120 days	(105 991)	(62 647)
121 - 365 days	(708 645)	(609 287)
> 365 days	(3 040 659)	(2 675 660)

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
9. CONSUMER DEBTORS DISCLOSURE (continued)	(4 308 746)	(3 576 176)
Total debtor past due but not impaired		
Current (0 -30 days)	170 171	206 896
31 - 60 days	129 167	47 424
61 - 90 days	20 735	37 913
91 - 120 days	59 321	63 800
121 - 365 days	47 631	38 785
> 365 days	182 169	266 096
	609 194	660 914
Reconciliation of allowance for impairment		
Balance at beginning of the year	(3 576 176)	(3 310 965)
Contributions to allowance	(732 570)	(374 464)
Debt impairment written off against allowance	-	109 253
	(4 308 746)	(3 576 176)
10. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE		
The Debt redemption fund is a financial solution to assist the City of Johannesburg municipality meet its financial obligations.		
The City pays contributions into the fund which is managed by a 3rd party fund manager so as to enable the City to receive contribution plus growth. This falls part of the risk management framework adopted by the City.		
The Terms and conditions are such that the collateralised asset upon maturity should be of the same value as the liability so that the liability can be redeemed.		
Sinking Fund Maturity - 05.06.2023		
Other financial assets through profit or loss		
Bond	1 203 096	1 101 618
Floating rate note	305 882	459 505
Amortising Swap	188 110	220 778
Swaps	355 709	487 001
Non-Current Assets	2 052 797	2 268 902
Other financial liabilities through profit or loss		
Bond	-	184 798
Amortising Swap	15 546	6 615
Swaps	434 853	480 662
Non-Current Liabilities	450 399	672 075

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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10. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE (continued)

Other financial assets through profit or loss

Bonds	88 681	266 523
Bond repos	-	188 081
Negotiable Certificate of Deposit	-	512 155
Cash	225 965	166 677
Cash collateral	-	17 485
Forward Rate Agreements	-	3 773
Swaps	26 498	29 942
Floating rate Notes	442 862	345 855

Current Assets

784 006	1 530 491
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Other financial liabilities through profit or loss

Bonds	-	1 151
Bond Repos	-	2
Cash collateral	152 331	109 064
Forward Rate Agreements	1 203	9 760
Swaps	2 685	30 410

Current Liabilities

156 219	150 387
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Financial assets carried at fair value through profit or loss

Derivatives designated and effective as hedging instruments carried at fair value	1 319 061	2 247 091
Held for trading non-derivative financial assets	1 517 742	1 552 303
	2 836 803	3 799 394

Financial liabilities carried at fair value through profit or loss

Derivatives designated and effective as hedging instruments carried at fair value	454 286	527 447
Held for trading non-derivative financial liabilities	152 331	295 014
	606 617	822 461

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	252	154
Bank	623 951	216 329
Call investment deposits	1 197 603	2 564 607
	1 821 806	2 781 090

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
11. CASH AND CASH EQUIVALENTS (continued)		
Call investment deposits		
Call Deposits STD Bank Rating - (F1+)	104 027	1 466
Fixed Deposits STD Bank Rating - (F1+)	236	3 516
Call Deposits ABSA Rating - (F1+)	865 774	820 724
Call Deposits RMB Rating - (F1+)	1 100	1 100
Call Deposits INVESTEC Rating - (F1)	1 718	1 130
Fixed Deposits INVESTEC Rating - F1+(ZAF)	92 107	84 700
Call Deposits NEDBANK Rating - (F1+)	120 516	815 599
Call Deposits CITI BANK Rating - (F1)	1 499	1 473
Call Deposits DEUTSCHE BANK Rating - (F1)	1 000	1 000
Call Deposits TCTA Rating - (None)	2 000	2 000
Call Deposits LANDBANK Rating - (F1+)	1 930	1 230
Stanlib Call Investment Rating - (F1+)	5 696	829 975
ARGON FUND INVEST	-	477
Sanlam Asset Managers	-	92
Prescient Investment Management	-	125
	1 197 603	2 564 607
Underwriting of COID reserve	83 200	83 200

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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12. INVESTMENT PROPERTY

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 000 144	-	1 000 144	1 014 946	-	1 014 946

Reconciliation of investment property - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Investment property	1 014 946	-	(14 802)	-	1 000 144

Reconciliation of investment property - 2017

	Opening balance	Additions	Transfers	Total
Investment property	1 014 946	-	-	1 014 946

Pledged as security

No Asset pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

13. PROPERTY, PLANT AND EQUIPMENT

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	8 653 078	-	8 653 078	8 905 402	-	8 905 402
Buildings	14 007 968	(4 126 727)	9 881 241	12 915 852	(3 736 180)	9 179 672
Plant and equipment	339 699	(256 547)	83 152	327 036	(232 880)	94 156
Furniture and fittings	485 011	(380 431)	104 580	523 892	(393 362)	130 530
Motor vehicles	391 395	(290 523)	100 872	391 395	(272 397)	118 998
Office equipment	1 192 275	(929 805)	262 470	1 083 299	(803 871)	279 428
Infrastructure	25 396 444	(6 790 233)	18 606 211	23 580 711	(5 742 462)	17 838 249
Community	3 591 857	(1 006 645)	2 585 212	2 527 537	(871 898)	1 655 639
Other	7 510	(1 886)	5 624	5 423	(1 423)	4 000
Bins and containers	20 993	(12 842)	8 151	20 994	(10 652)	10 342
Specialised vehicles	838 533	(392 285)	446 248	814 370	(338 024)	476 346
Library books	665 476	(600 384)	65 092	657 832	(600 167)	57 665
Emergency equipment	66 018	(30 770)	35 248	65 878	(25 454)	40 424
Total	55 656 257	(14 819 078)	40 837 179	51 819 621	(13 028 770)	38 790 851

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Depreciation	Impairment loss	Total
Land	8 905 402	3 072	-	(255 396)	-	-	8 653 078
Buildings	9 179 672	1 129 967	-	(22 519)	(405 879)	-	9 881 241
Plant and equipment	94 156	15 952	-	(17)	(25 899)	(1 040)	83 152
Furniture and fittings	130 530	5 166	-	(99)	(31 017)	-	104 580
Motor vehicles	118 998	-	-	-	(18 126)	-	100 872
Office equipment	279 428	115 498	-	(382)	(132 074)	-	262 470
Infrastructure	17 838 249	1 815 729	-	-	(1 040 617)	(7 150)	18 606 211
Community	1 655 639	1 065 403	-	(169)	(135 661)	-	2 585 212
Other	4 000	2 087	-	-	(463)	-	5 624
Bins and containers	10 342	1	-	-	(2 192)	-	8 151
Specialised vehicles	476 346	24 163	-	-	(54 261)	-	446 248
Library books	57 665	13 767	-	-	(6 340)	-	65 092
Emergency equipment	40 424	165	-	(23)	(5 318)	-	35 248
	38 790 851	4 190 970	-	(278 605)	(1 857 847)	(8 190)	40 837 179

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	8 836 542	103 399	(34 539)	-	-	8 905 402
Buildings	9 243 816	316 172	(2 557)	(375 635)	(2 124)	9 179 672
Plant and equipment	99 985	20 920	(462)	(26 287)	-	94 156
Furniture and fittings	127 687	45 037	(304)	(41 890)	-	130 530
Motor vehicles	131 330	-	-	(12 332)	-	118 998
Office equipment	338 024	76 168	(582)	(134 182)	-	279 428
Infrastructure	14 164 768	4 623 927	-	(907 338)	(43 108)	17 838 249
Community	1 756 480	32 569	(258)	(133 152)	-	1 655 639
Other	2 704	2 059	(1)	(762)	-	4 000
Bins and containers	4 252	9 310	(852)	(2 368)	-	10 342
Specialised vehicles	529 716	-	(1 713)	(51 657)	-	476 346
Library books	54 714	6 123	-	(3 172)	-	57 665
Emergency equipment	32 198	13 155	(9)	(4 920)	-	40 424
	35 322 216	5 248 839	(41 277)	(1 693 695)	(45 232)	38 790 851

Pledged as security

No Asset pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The following leased assets are included in Property, Plant and Equipment listed above

	2018			2017		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Office equipment	67 884	(64 554)	3 330	67 884	(57 784)	10 100
BRT Busses	355 021	(249 532)	105 489	355 021	(219 947)	135 074
Total	422 905	(314 086)	108 819	422 905	(277 731)	145 174

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Buildings	1 146 792	319 064
Plant and machinery	1 507	-
Office equipment	80 017	-
Infrastructure	6 726 972	6 277 972
Community	1 384 644	354 527
	9 339 932	6 951 563

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

General expenses	120 150	446 559
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City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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14. INTANGIBLE ASSETS

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 145 268	(1 664 841)	480 427	1 808 665	(1 490 921)	317 744

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

14. INTANGIBLE ASSETS (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	317 744	336 621	-	(173 938)	480 427

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	483 471	23 088	-	(188 815)	317 744

Pledged as security

No Asset pledged as security.:

Cumulative expenditure recognised in the carrying value of intangible assets	232 982	-
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City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand 2018 2017

15. HERITAGE ASSETS

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	524 769	-	524 769	524 769	-	524 769
Historical monuments	14 457	-	14 457	14 457	-	14 457
Historical buildings	41 104	-	41 104	41 104	-	41 104
Total	580 330	-	580 330	580 330	-	580 330

Reconciliation of heritage assets 2018

	Opening balance	Total
Art Collections, antiquities and exhibits	524 769	524 769
Historical monuments	14 457	14 457
Historical buildings	41 104	41 104
	580 330	580 330

Reconciliation of heritage assets 2017

	Opening balance	Additions	Total
Art Collections, antiquities and exhibits	524 723	46	524 769
Historical monuments	14 457	-	14 457
Historical buildings	41 104	-	41 104
	580 284	46	580 330

Pledged as security

No Asset pledged as security.:

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

16. INVESTMENTS IN ME'S

Gross investment

	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
City of Johannesburg Property Company (Pty) Ltd	100 %	100 %	5 141	5 141
City Power Johannesburg (Pty) Ltd	100 %	100 %	112 466	112 466
Johannesburg City Parks	100 %	100 %	29 958	29 958
Johannesburg Development Agency (Pty) Ltd	100 %	100 %	16 278	16 278
Johannesburg Metropolitan Bus Services (Pty) Ltd	100 %	100 %	54 774	54 774
Johannesburg Roads Agency (Pty) Ltd	100 %	100 %	313 585	281 441
Johannesburg Social Housing Company (Pty) Ltd	100 %	100 %	-	-
Johannesburg Water (Pty) Ltd	100 %	100 %	-	-
Metropolitan Trading Company (Pty) Ltd	100 %	100 %	97 972	97 972
Pikitup Johannesburg (Pty) Ltd	100 %	100 %	31 315	31 315
Johannesburg Civic Theatre	100 %	100 %	1 784	1 784
The Johannesburg Fresh Produce Market (Pty) Ltd	100 %	100 %	20 000	20 000
			683 273	651 129

Impairments

	Carrying amount 2018	Carrying amount 2017
Johannesburg Metropolitan Bus Services (Pty) Ltd	(54 774)	(54 774)

Net investment

	Carrying amount 2018	Carrying amount 2017
City of Johannesburg Property Company (Pty) Ltd	5 142	5 142
City Power Johannesburg (Pty) Ltd	112 466	112 466
Johannesburg City Parks	29 958	29 958
Johannesburg Development Agency (Pty) Ltd	16 278	16 278
Johannesburg Metropolitan Bus Services (Pty) Ltd	-	-
Johannesburg Roads Agency (Pty) Ltd	313 585	281 441
Johannesburg Social Housing Company (Pty) Ltd	-	-
Johannesburg Water (Pty) Ltd	-	-
Metropolitan Trading Company (Pty) Ltd	97 972	97 972
Pikitup Johannesburg (Pty) Ltd	31 315	31 315
The Johannesburg Civic Theatre (Pty) Ltd	1 784	1 784
The Johannesburg Fresh Produce Market (Pty) Ltd	20 000	20 000
	628 500	596 356

CJMM has investments in the following Municipal Entities that are less than R1 000

Johannesburg Social Housing Company (Pty) Ltd R120
Johannesburg Water (Pty) Ltd R 200

Investments in ME's includes shareholder loans with no fixed repayment terms and interest as they are classified as equity.

17. INVESTMENTS IN JOINT VENTURES

CJMM has an investment in a Joint venture that is less than R1 000

Golden Triangle Development Company (Pty) Ltd R500

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
18. LOANS AND BORROWINGS		
Non Current portion of loans and borrowings - At amortised cost		
Structured loans *	-	3 276
Development Bank South Africa	9 109 344	7 845 423
Listed bonds	6 016 000	6 016 000
Other financial liabilities	4 004 951	2 976 076
	19 130 295	16 840 775
Current portion of loans and borrowings - At amortised cost		
Structured loans *	3 275	13 333
Development Bank South Africa	288 141	106 892
Listed bonds	-	1 724 842
Other financial liabilities	469 512	1 409 896
	760 928	3 254 963
	19 891 223	20 095 738
19. FINANCE LEASE OBLIGATION		
Minimum lease payments due		
- within one year	50 822	60 792
- in second to fifth year inclusive	127 664	178 070
	178 486	238 862
less: future finance charges	(27 173)	(43 547)
Present value of minimum lease payments	151 313	195 315
Present value of minimum lease payments due		
- within one year	38 274	44 605
- in second to fifth year inclusive	113 039	150 710
	151 313	195 315
Non-current liabilities	113 039	150 710
Current liabilities	38 274	44 605
	151 313	195 315

A register containing the information is available for inspection at the registered office of the CJMM.

1. Resultant

The Finance Lease liabilities relate to Office Equipment with lease terms of three years. There are no renewal or purchase options and no restrictions imposed by the lease agreements.

2 Bus Operating Company

Finance Lease Liabilities relate to vehicles with a lease term of 12 years. Capitalised Lease Liabilities are secured by the related finance lease assets.

The carrying values of the finance leased assets are included under other property, plant and equipment. Refer to note 13.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
20. PAYABLES FROM EXCHANGE TRANSACTIONS		
Financial liabilities		
Accrued interest	283 913	159 798
Related party creditor	5 653 795	4 816 914
Credit balances in consumer debtors	444 799	404 456
Engineering fees	109 620	114 828
Operating lease payables	4 796	4 051
Other creditors	490 128	667 052
Retentions	60 915	53 197
Trade payables	1 940 936	1 716 777
	<u>8 988 902</u>	<u>7 937 073</u>
Other liabilities		
Accrued leave pay	346 837	329 815
Payments received in advanced	13 676	14 363
	<u>360 513</u>	<u>344 178</u>
	<u>9 349 415</u>	<u>8 281 251</u>

21. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Provincial grants : Capital projects	55 329	157 646
Urban settlements development grant	-	266 825
Provincial grants : Top Structure of houses	79 984	-
Provincial grants : Operational projects	22 925	27 624
United Nation Environment Programme	5 220	-
Public Transport Network Grant (Capital Projects)	20 547	3 852
Neighbourhood Development Partnership Grant (NDPG)	2 919	14 618
Integrated City Development Grant (ICDG)	12 110	4 762
Expanded Public Works Programme (EPWP)	-	4 402
Provincial grant : Jozi Ihlomihle (Hiv/Aids)	757	384
Public Transport Network Grant (Operational Projects)	99	38 082
Unspent public contributions and donations	1 682	751
	<u>201 572</u>	<u>518 946</u>

Revenue received from conditional grants are recognised to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

A liability is recognised for any unfulfilled conditions, obligations and other contingencies attaching to government grants or assistance.

See note 29: for reconciliation of grants from National/Provincial Government.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand 2018 2017

22. PROVISIONS

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Amount paid	Total
Bonus provision	19 994	14 706	-	-	(249)	34 451
Provision for Interest - Connaught court case	58 600	16 644	-	-	-	75 244
Provision for amount owed to Harambee	-	10 300	-	-	-	10 300
Provision for Damages claim	20 000	-	-	(20 000)	-	-
Provision for Maintenance Contract	14 000	-	-	-	-	14 000
Provision for claim - Boffin and Fundi	-	11 000	-	-	-	11 000

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Settled during the year	Amount paid	Total
Bonus provision	11 964	13 094	-	(3 221)	(1 843)	19 994
Provision for Interest - Connaught court case	43 625	14 975	-	-	-	58 600
Provision for Damages Claim	20 000	-	-	-	-	20 000
Provision for Maintenance Contract	14 000	-	-	-	-	14 000
Provision for Security Contract	1 000	-	-	-	(1 000)	-
Pension fund provisions	89 836	4 568	-	-	(94 404)	-
	180 425	32 637	-	(3 221)	(97 247)	112 594

Provision for Maintenance Contract

An Arbitration matter in which Questek, the claimant, claims that the City must pay it approximately R14 million for services rendered in a maintenance contract at the City's request. The City does not deny the services rendered for R14 million.

Provision for Security Contract

The High Court ordered that Mjayeli suffered damages which are limited to 30 days proven loss of profits with the City having to pay Mjayeli's costs. The loss is estimated for R1 million and was settled during the 2016/17 financial year.

Bonus provisions

Bonus provision relates to the performance bonus for the section 57 employees.

Provision for amount owed to Harambee

Harambee provided services in the past to the city, which the City did not settle nor provided for as there were disputes with the services as per the agreement. Harambee then applied to court to force the City to settle which the judgement was past against the City on the 10th of April 2018. The total amount of the settlement is R10 300 000.

Provision for claim - Boffin and Fundi

Claim by Boffin and Fundi for an amount of R35 MILLION against the City. The parties have entered into settlement negotiations, City prepared to settle at R11 MILLION and Boffin has agreed to settle. The settlement negotiations are ongoing. The City quantified the amount payable through Actuarial exercise.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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22. PROVISIONS (continued)

Provision for Interest - Connaught court case

The provision is in respect of properties used for both business and residential but rated for business only. The City was of the view that it can rate the properties as business only which is in line with its rate policy. However, the courts held that the City's rate policy does not take precedence over the Municipal Property Rates Act and the City is obliged to apportion the value of the properties in terms of the Municipal Property Rates Act.

Provision for Damages Claim

A claim of R10 million instituted against Eastern Metropolitan Local Council for damages for loss of business as a result of the construction of the Grayston Drive flyover across Katherine Street, Sandown. The case was provided for in prior years as an amount of R20 million, which is R10 million claim and R10 million interest. The Plaintiff applied for a separation of issues regarding whether or not the former Sandton Town Council was obliged to follow the procedures in the Local Government Ordinance relating to road closures or deviations. SCA has ruled that the construction did amount to a diversion thus issue of quantum of damages comes into focus. Plaintiffs have not shown an immediate intention to set matter down for trial at this stage. The matter has become dormant for long periods, as the last trial date was October 2012 which did not take place and the matter was further postponed. The plaintiff has not set down the matter for trial since. It has further proven that it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Pension fund Provision

The provision is for the settlement of the Soweto Pension Fund which was approved by the Mayoral Committee on the 2nd of December 2010. The Settlement amount should have been paid in cash on or before 30 June 2011, as a result the interest at the rate of 65% of the prime interest has been calculated. The current year additions in the Soweto Pension fund provision relates to interest. The amount was settled during the 2016/17 financial year.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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23. RETIREMENT BENEFIT OBLIGATION

23.1 Post retirement liabilities

Post-Retirement Medical Aid Plan	(933 760)	(1 059 955)
Post-Retirement Housing Subsidy Plan	(313)	(317)
Retirement Gratuity Plan	(141 951)	(145 169)
	(1 076 024)	(1 205 441)

23.1.1 Post retirement medical aid plan

City of Johannesburg Metropolitan Municipality has obligations to subsidise medical aid contributions in respect of certain qualifying staff and pensioners and their surviving spouses. Post-retirement medical aid subsidies are provided to pensioners, in the service of the CJMM as at 1 January 2001, and employees 50 years and older on 1 July 2003 whilst contributory members to either LA Health or Key Health medical schemes. The subsidy remains payable only for as long as members remain contributory members to these medical schemes.

Amounts recognised in the Statement of financial position

Present value of unfunded obligation in respect of CJMM employees	933 760	1 059 955
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Movements for the year

Opening balance	1 059 956	1 103 328
Benefits paid	(103 794)	(104 428)
Net expense recognised in the statement of financial performance	(22 402)	61 056
	933 760	1 059 956

Net expense recognised in the statement of financial performance

Interest cost	88 994	93 514
Actuarial (gains)	(111 396)	(32 458)
	(22 402)	61 056

Key assumptions used

The principal actuarial assumptions used were as follows:

Discount rates used	8,70 %	8,84 %
Expected increase in salaries	6,97 %	6,65 %

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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23. RETIREMENT BENEFIT OBLIGATION (continued)

Other assumptions.

Age of spouse	-	Husbands five years older than wives.
Mortality of in-service members years	-	In accordance with the SA 85-90 (Light) ultimate table (rated down 3 for females.
Mortality of pensioners	-	In accordance with the PA(90) ultimate male and female tables.

Sensitivity analysis

Medical and Salary Inflation Rate

	-1%	0%	1%
Liability	914 186	933 760	949 294
Percentage change	-2.6%	0%	2.3%
	-	-	-

Mortality Rate

	-20%	0%	20%
Liability	1 012 398	933 760	870 278
Percentage change	- 7%	0	6%

23.1.2 Post retirement housing subsidy plan

The City of Johannesburg Metropolitan Municipality provides housing subsidies in respect of certain qualifying staff members. In the event that the housing loan that the subsidy related to is not fully repaid at retirement date, the subsidy will continue into the members' retirement. The subsidy amount is based on the subsidy received at the date of valuation. The subsidy amount is assumed to remain constant and to continue for a period of 10 years after retirement.

The above liability is unfunded. However, City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of City of Johannesburg Metropolitan Municipality who are entitled to benefits that relates to their service with the City of Johannesburg Metropolitan Municipality since the City of Johannesburg Metropolitan Municipality was established. The amount was determined at 1 July 2003 and has been crystallised in the form of a notional loan account which earned interest and against which the company may claim benefit payments made. This loan does not constitute a plan asset and in terms of GRAP 25 cannot be offset against the liability. It has however been included in the assets of the City of Johannesburg Metropolitan Municipality.

Amounts recognised in the Statement of financial position

Present value of unfunded obligation in respect of CJMM employees	313	317
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The fair value of plan assets includes:

Movements for the year

Opening balance	317	301
Benefits paid	(63)	(72)
Net Income/(expense) recognised in the statement of financial performance	59	88
	313	317

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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23. RETIREMENT BENEFIT OBLIGATION (continued)

Net expense recognised in the statement of financial performance

Interest cost	25	23
Actuarial Loss/(gains)	34	65
	59	88

Key assumptions used

Assumptions used for the valuation .

Discount rates used	8,70 %	8,84 %
Expected increase in salaries	6,97 %	6,65 %

Sensitivity analysis

Medical and Salary Inflation

	-1%	0%	1%
Liability	294	300	307
Percentage change	-2,6%	0	2,3%

Mortality Rate

	-20%	0%	20%
Liability	300	300	300
Percentage change	7%	0	-6%

23.1.3 Post retirement gratuity plan

City of Johannesburg Metropolitan Municipality provides gratuities on retirement or prior death in respect of certain qualifying staff members who have service with the City of Johannesburg Metropolitan Municipality when they were not members of one of the retirement funds and who meet certain service requirements in terms of the City of Johannesburg Metropolitan Municipality's conditions of employment. The gratuity amount is based on 1 month's salary per year of non-retirement funding service.

The above liability is unfunded. However, the City of Johannesburg Metropolitan Municipality has undertaken to cover such portion of the liability for the staff of City of Johannesburg Metropolitan Municipality who are entitled to benefits that relates to their service with the City of Johannesburg Metropolitan Municipality since the company was established. This amount was determined at 1 July 2003 and has been crystallised in the form of a notional loan account which earned interest and against which the company may claim benefit payments made. This loan does not constitute a plan asset and in terms of GRAP 25 cannot be offset against the liability. It has however been included in the assets of the City of Johannesburg Metropolitan Municipality.

Amounts recognised in the Statement of financial position

Present value of unfunded obligation in respect of CJMM employees	141 951	145 169
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City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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23. RETIREMENT BENEFIT OBLIGATION (continued)

Movements for the year

Opening balance	145 169	150 827
Benefits paid	(11 727)	(10 155)
Net (expense)/Income recognised in the statement of financial performance	8 509	4 497
	141 951	145 169

Net expense recognised in the statement of financial performance

Interest cost	12 100	12 685
Actuarial (gains) losses	(3 591)	(8 188)
	8 509	4 497

Key assumptions used

Assumptions used on last valuation on .

The principal actuarial assumptions used were as follows:

Discount rates used	8,70 %	8,84 %
Expected increase in salaries	6,97 %	6,65 %

Sensitivity analysis

Mortality Rates

	-1%	0%	1%
Liability	133 563	142 093	151 377
Percentage change	-2,6%	0	2,3%

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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23. RETIREMENT BENEFIT OBLIGATION (continued)

CJMM and its ME's provide post-employment benefits to all their permanent employees through defined contribution funds. The following employee contributions have been made to the defined contribution plans.

City of Johannesburg Pension Fund	43 745	43 428
eJoburg Retirement Fund	213 420	191 703
Municipal Councillors pension Fund	9 674	8 728
National Fund for Municipal Workers	827	817
Sandton Provident Fund	269	278
Municipal Employees Gratuity Fund	10 063	10 134
	277 998	255 088

The following employee contributions have been made to the multi-employer plans.

Joint Municipal Pension Fund	1 055	1 030
Municipal Employees Pension Fund	2 162	4 250
	3 217	5 280

Table 7.2 summarises the results of this analysis on the sum of the Current-service and Interest Costs for the year ending 30 June 2018.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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24. DEFERRED INCOME

Bond tap

Balance unspent at beginning of year	38 067	42 046
Conditions met - transferred to revenue	(4 408)	(3 979)
Conditions still to be met - transferred to liabilities	33 659	38 067

The Bond tap is a Bond issued into the life of an existing Bond. The Tap was issued at a premium on the prevailing interest rate at the time of the Tap. The premium is amortised over the maturity of the Bond and released to interest income on an annual basis.

The tap was issued on 9 December 2008, due to mature on 5 June 2023. The tap was issued at a premium of R58,038,692, at an interest rate of 12.21% per annum. The notional amount was R468,000,000 and the issue price was R526,038,692.

BRT Point system

Balance unspent at beginning of year	11 059	4 298
Net movement	19 614	6 761
Conditions still to be met - transferred to liabilities	30 673	11 059

BRT awards bonus points to passengers when they load money into their cards. The deferred income is released as and when the passengers redeem their points.

Total deferred income	64 332	49 126
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City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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25. OTHER FINANCIAL LIABILITIES AT FAIR VALUE

During the financial year 2010/2011, CJMM entered into an interest rate swap by exchanging the Nedbank R1 billion 3 months JIBAR rate + 280 bsp for an 11.66% fixed interest rate.

Swap Details

Trade Date : 30 March 2011
 Settlement Date: 29 March 2018
 Nominal Amount: R 1 billion
 Fixed Rate: 11.66%
 Payable: Semi- annual

Opening balance	14 060	22 134
Net movement	(14 060)	(8 074)
Closing balance	-	14 060

26. CONSUMER DEPOSITS

Consumer deposits	16 748	16 479
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Consumer deposits relate largely to deposits held in the JPC Portfolio Account (2018: R14 316 747 and 2017: R 14 227 468) in relation to rental of facilities. The other balance relates to deposits held by Community Development and the Housing Department also for the rental of facilities. All consumer deposits are non-current in nature.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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27. PROPERTY RATES

Rates received

Residential	3 369 831	3 114 579
Commercial	5 530 872	4 625 362
State	187 253	172 440
	9 087 956	7 912 381

Valuations

Residential	636 428 876	624 699 254
Business	310 757 346	303 906 608
State	34 019 174	34 523 310
	981 205 396	963 129 172

28. RENDERING OF SERVICES

Other service charges	174 255	120 016
BRT Revenue	115 737	126 526
Surcharges : Electricity	168 684	163 846
Surcharges : Refuse	5 406	5 014
Surcharges : Water	59 155	47 281
	523 237	462 683

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
29. GOVERNMENT GRANTS AND SUBSIDIES		
Provincial grants : Capital projects	107 866	107 131
Urban settlements development grant	1 169 277	1 364 661
Financial management grant	1 050	1 050
Provincial grants : Top structure of houses	248 785	404 736
Provincial grants : Operating projects	17 761	40 325
Public Transport Network Grant (Capital Projects)	685 585	807 431
Neighbourhood Development Partnership Grant (NDPG)	42 563	46 112
Integrated City Development Grant (ICDG)	65 052	54 942
Expanded Public Works Programme (EPWP)	12 047	30 522
Provincial grant : Jozi Ihlomihle (Hiv/Aids)	21 698	19 926
Public Transport Network operations Grant	211 990	206 164
Ambulance subsidy	123 187	117 321
Equitable share and fuel levy	6 377 585	5 777 859
Provincial health subsidies	121 669	115 875
	9 206 115	9 094 055

Provincial grants : Capital projects

Balance unspent at beginning of year	157 646	174 148
Paid Back	-	(16 502)
Tranferred to Provincial Grants	(68 606)	-
Adjustment - Debtors	74 155	107 131
Conditions met - transferred to revenue	(107 866)	(107 131)
Conditions still to be met - transferred to liabilities	55 329	157 646

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
29. GOVERNMENT GRANTS AND SUBSIDIES (continued)		
Urban settlements development grant		
Balance unspent at beginning of year	266 825	94 985
Current year receipts	1 501 731	1 775 808
Paid Back	(266 825)	-
Paid/Due to MEs	(332 454)	(239 307)
Conditions met - transferred to revenue	(1 169 277)	(1 364 661)
Conditions still to be met - transferred to liabilities	-	266 825

This grant is made available to support municipal capital budgets to fund municipal infrastructure and to upgrade existing infrastructure, primarily for the benefit of poor households. The Urban Settlement Development Grant contributes towards the achievement of sustainable human settlements and improved quality of household life by implementing infrastructure development projects that work towards the realisation of adequate housing and improved quality environments and a functional residential property market. The infrastructure development projects include roads, bridges, water supply network, sanitation services, electrical reticulation, social and recreational services, cemeteries, markets as well as release of well located land.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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29. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Financial management grant

Current year receipts	1 050	1 050
Conditions met - transferred to revenue	(1 050)	(1 050)
Conditions still to be met - transferred to liabilities	-	-

The grant was to target training and capacitation of the staff in the Budget and Treasury offices. It targets systems for the implementation of the MFMA reporting requirements. The grant is mainly used to employ interns in the Finance Department and to fund the MFMA minimum competency level training.

Provincial grants : Top structure of houses

Current year receipts	307 946	382 197
Tranferred from Provincial Grants	68 604	-
Settled against debtors	(47 781)	22 539
Conditions met - transferred to revenue	(248 785)	(404 736)
Conditions still to be met - transferred to liabilities	79 984	-

Provincial grants : Operating projects

Balance unspent at beginning of year	27 624	31 910
Current year receipts	30 921	43 539
Paid Back	(17 859)	(7 500)
Conditions met - transferred to revenue	(17 761)	(40 325)
Conditions still to be met - transferred to liabilities	22 925	27 624

To transform urban and rural community library infrastructure, facilities and services through a recapitalised programme at provincial level in support of local government and national initiatives. The funding is intended to address backlogs and disparities in ongoing provision and maintenance of community library services across municipalities and enable provincial departments to provide strategic guidance and alignment with national priorities.

United Nation Environment Programme

Current year receipts	5 220	-
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Public Transport Network Grant (Capital Projects)

Balance unspent at beginning of year	3 852	2 475
Current year receipts	706 132	808 808
Amount paid back	(3 852)	-
Conditions met - transferred to revenue	(685 585)	(807 431)
Conditions still to be met - transferred to liabilities	20 547	3 852

This grant is provided to finance Public Transport System.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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29. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Neighbourhood Development Partnership Grant (NDPG)

Balance unspent at beginning of year	14 618	25 753
Current year receipts	45 464	79 172
Paid Back	(14 600)	(44 195)
Conditions met - transferred to revenue	(42 563)	(46 112)
Conditions still to be met - transferred to liabilities	2 919	14 618

The purpose of this grant is to stimulate and accelerate private sector investment in poor and underserved neighbourhoods. It is an Infrastructure Development grant focusing on township development, for the purpose of attracting private investment and for Government agencies to be able to provide basic services.

Integrated City Development Grant (ICDG)

Balance unspent at beginning of year	4 762	31 805
Current year receipts	82 200	59 704
Paid Back	(9 800)	(31 805)
Conditions met - transferred to revenue	(65 052)	(54 942)
Conditions still to be met - transferred to liabilities	12 110	4 762

Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	4 402	910
Current year receipts	17 421	47 613
Paid/Due to MOEs	(5 376)	(12 689)
Paid back	(4 400)	(910)
Conditions met - transferred to revenue	(12 047)	(30 522)
Conditions still to be met - transferred to liabilities	-	4 402

The Grant assists in providing an important avenue for labour absorption and aids transfers of income to poor households. It uses expenditure on goods and services to create work opportunities for the unemployed. EPWP Projects employ workers on a temporary or on-going basis either by government, by contractors, or by other non-governmental organisations under the Ministerial Conditions of Employment for the EPWP or learnership employment conditions.

Provincial grant : Jozi Ihlomihle (Hiv/Aids)

Balance unspent at beginning of year	384	-
Current year receipts	22 071	20 310
Conditions met - transferred to revenue	(21 698)	(19 926)
Conditions still to be met - transferred to liabilities	757	384

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

29. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Public Transport Network Grant (Operational projects)

Balance unspent at beginning of year	38 082	45 246
Current year receipts	212 056	206 700
Amount paid back	(38 049)	(7 700)
Conditions met - transferred to revenue	(211 990)	(206 164)
Conditions still to be met - transferred to liabilities	99	38 082

Ambulance subsidy

Current year receipts	123 187	117 321
Conditions met - transferred to revenue	(123 187)	(117 321)
Conditions still to be met - transferred to liabilities	-	-

Gauteng province pays an annual grant to EMS for providing an ambulance service for the City of Johannesburg. This grant covers less than half of the cost of the vehicles, the manning of the vehicles and all other costs associated with providing the service by the City.

Equitable share and fuel levy

Current year receipts	6 030 960	5 682 596
Transfers from other grants	346 625	108 663
Allocation reduction	-	(13 400)
Conditions met - transferred to revenue	(6 377 585)	(5 777 859)
Conditions still to be met - transferred to liabilities	-	-

Municipal Equitable Share is the share of Local Government Sphere's share of revenue raised nationally. The equitable share allocation is a subsidy received from National Treasury and is mainly for RSC levies replacement, special support for councillors' remuneration, ward committees and funding for free basic services (Basic Social Services Package) for the registered indigent households.

Provincial health subsidies

Current year receipts	121 669	115 875
Conditions met - transferred to revenue	(121 669)	(115 875)
Conditions still to be met - transferred to liabilities	-	-

The Municipality renders health services on behalf of the Provincial Government and is refunded approximately 20% of total expenditure incurred. These funds have been used exclusively to fund clinic services. The conditions of the grant have been met. There was no delay or withholding of the subsidy.

30. OTHER REVENUE

Internal recoveries - Core	(6 656)	-
Internal recoveries - ME's	412 325	385 688
Licences and permits	8 202	3 648
Sundry revenue	429 592	284 945
Recovery of insurance	4 672	1 436
Recovery of legal costs	560	635
Training revenue	15 769	14 788
864 464	691 140	

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
31. EMPLOYEE RELATED COSTS		
Employee related costs : Salaries and wages	4 455 127	4 003 337
Employee related costs : Pension contributions	620 091	566 616
Employee related costs : Medical aid contributions	375 237	349 962
Employee related costs : Skills development levy	53 064	47 524
Housing benefits and allowances	38 431	35 801
Overtime payments	126 603	87 802
Bonus	269 426	242 972
Travel, motor car, accommodation, subsistence and other allowances	296 818	284 244
UIF	26 341	25 117
Post Retirement Benefits Movement	(115 037)	(10 562)
	6 146 101	5 632 813
Remuneration of City Manager		
Annual Remuneration	2 759	1 519
Contributions to UIF, Medical and Pension Funds	49	28
	2 808	1 547
Remuneration of the Group Head : Risk Assurance Services		
Annual Remuneration	1 984	618
Car Allowance	77	100
Performance Bonuses	-	89
Contributions to UIF, Medical and Pension Funds	203	20
	2 264	827

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

31. EMPLOYEE RELATED COSTS (continued)

Remuneration of the Group Head : Strategy, Policy Coordination and Relations

Annual Remuneration	1 451	1 416
Car Allowance	172	180
Performance Bonuses 2016/2017	-	92
Contributions to UIF, Medical and Pension Funds	2	2
	1 625	1 690

Remuneration of the Group Head : Communication and Tourism

Annual Remuneration	1 560	1 730
Contributions to UIF, Medical and Pension Funds	2	2
Performance Bonus Fin Year 2013/2014	15	120
	1 577	1 852

Remuneration of the Group Head : Legal and Contracts (Current)

Annual Remuneration	1 067	-
Car Allowance	73	-
Contributions to UIF, Medical and Pension Funds	124	-
	1 264	-

Remuneration of the Group Head : Legal and Contracts (Former)

Annual Remuneration	108	1 216
Car Allowance	7	87
Contributions to UIF, Medical and Pension Funds	17	186
	132	1 489

Remuneration of the Group : Chief Financial Officer

Annual Remuneration	-	2 754
Car Allowance	-	141
Performance Bonuses	-	408
Contributions to UIF, Medical and Pension Funds	-	2
Settlement Agreement	-	1 572
	-	4 877

The position has been vacant since June 2017. The vacant position was filled by an acting role from June 2017.

Remuneration of the Executive Director : Economic Development

Annual Remuneration	1 936	1 180
Car Allowance	88	-
Performance Bonuses	-	290
Contributions to UIF, Medical and Pension Funds	2	1
Final leave payment	-	179
	2 026	1 650

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

31. EMPLOYEE RELATED COSTS (continued)

Remuneration of the Executive Director : Community Development (Current)

Annual Remuneration	1 553	-
Car Allowance	130	-
Contributions to UIF, Medical and Pension Funds	159	-
	1 842	-

Appointed effective from September 2017

Remuneration of the Executive Director : Community Development (Former)

Annual Remuneration	151	1 699
Car Allowance	9	103
Performance Bonuses	-	307
Contributions to UIF, Medical and Pension Funds	17	173
	177	2 282

Contract terminated July 2017

Remuneration of the Executive Director : Development Planning and Urban Development (Former)

Annual Remuneration	570	2 147
Car Allowance	36	97
Performance Bonuses	-	217
Contributions to UIF, Medical and Pension Funds	35	48
Eminence/Premiums Allowance	45	120
Final Leave payment	98	-
	784	2 629

Position has been vacant since October 2017.

Remuneration of the Executive Director : Development Planning and Urban Development (Current)

Annual Remuneration	275	-
Car Allowance	50	-
	325	-

Remuneration of the Executive Director : EISD

Annual Remuneration	996	1 873
Car Allowance	49	97
Performance Bonuses	25	271
Contributions to UIF, Medical and Pension Funds	-	48
Final Leave payment	120	-
	1 190	2 289

Remuneration of the Executive Director : Housing

Annual Remuneration	1 617	-
Contributions to UIF, Medical and Pension Funds	171	-
	1 788	-

Appointed effective from August 2017.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

31. EMPLOYEE RELATED COSTS (continued)

Remuneration of the Executive Director : Transportation

Annual Remuneration	2 126	2 004
Car Allowance	73	73
Performance Bonuses	-	213
Contributions to UIF, Medical and Pension Funds	321	302
	2 520	2 592

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

31. EMPLOYEE RELATED COSTS (continued)

Remuneration of the Executive Director : Health

Annual Remuneration	2 360	2 089
Car Allowance	108	108
Performance Bonuses	-	431
Contributions to UIF, Medical and Pension Funds	2	2
Final leave payment	141	141
	2 611	2 771

Remuneration of the Executive Director : Corporate Services

Annual Remuneration	1 739	1 554
Contributions to UIF, Medical and Pension Funds	1	1
Final leave payment	188	-
	1 928	1 555

Remuneration of the Executive Director : Office of the City Manager

Annual Remuneration	264	1 496
Performance Bonuses	-	170
Contributions to UIF, Medical and Pension Funds	14	79
Final leave payment	93	-
	371	1 745

Remuneration of the Group Head : Urban Management and Citizen Relationship Management

Annual Remuneration	1 839	1 732
Car Allowance	101	101
Performance Bonuses	-	95
Contributions to UIF, Medical and Pension Funds	195	183
IEC Payment	-	11
	2 135	2 122

Remuneration of the Group Head : Governance

Annual Remuneration	810	1 525
Car Allowance	48	96
Performance Bonuses	-	149
Contributions to UIF, Medical and Pension Funds	47	87
Final leave payment	65	-
	970	1 857

Remuneration of the Executive Director : Public Safety

Annual Remuneration	1 248	1 174
Car Allowance	86	86
Performance Bonuses	-	89
Contributions to UIF, Medical and Pension Funds	1	1
Final leave payment	208	-
Settlement agreement	2 000	-
	3 543	1 350

Remuneration of the Executive Director : Social Development

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
31. EMPLOYEE RELATED COSTS (continued)		
Annual Remuneration	881	944
Car Allowance	61	69
Performance Bonuses	-	253
Contributions to UIF, Medical and Pension Funds	59	52
Final leave payment	137	-
Settlement agreement	714	-
	1 852	1 318

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

32. REMUNERATION OF COUNCILLORS

Executive Mayor	1 355	1 252
Mayoral Committee Members	10 419	9 139
Speaker	1 100	1 003
Councillors	116 343	103 854
Councillors' pension contribution	9 133	9 067
Chairpersons	17 856	15 278
	156 206	139 593

Remuneration of the Executive Mayor - Herman Mashaba

Annual Remuneration	1 289	1 084
Car Allowance	41	-
Cell Allowance	4	36
	1 334	1 120

New appointment from August 2016.

In-kind benefits

Health

R18 016 Scale Digital X 7

R7 120 Aneroid BP Wall Mounted X 16

R2 574 Scale electronic 200kg battery backup

Environment and Infrastructure

Conferences attended through out the financial year valued at R334 334 for Travelling and accommodation

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
33. DEPRECIATION AND AMORTISATION		
Property, plant and equipment	1 857 845	1 693 694
Intangible assets	173 938	188 815
	2 031 783	1 882 509
34. IMPAIRMENT LOSSES		
Impairments		
Property, plant and equipment	(8 190)	(45 232)
Pikitup Johannesburg (Pty) Ltd	(59 432)	(57 080)
The City had entered into a concession with the entity where it agreed to consistently settle interest that becomes due. Although Pikitup has significantly improved its solvency and liquidity position, the continued existence of the concession implies the existence of risk in defaulting. Refer to Note 4		
	(67 622)	(102 312)
35. ALLOWANCE FOR IMPAIRMENT OF CURRENT RECEIVABLES		
Allowance for Impairment - Trade and Other Receivables - Fines	104 987	195 893
Allowance for Impairment - Consumer Debtors	732 570	374 464
Allowance for Impairment - Trade and Other Receivables - Other	44 249	42 282
	881 806	612 639

Allowance for Trade and other receivables includes the impairment Traffic fines and sundry debtors.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
36. GRANTS AND SUBSIDIES PAID		
Grants paid to ME's		
City of Johannesburg Property Company (Pty) Ltd	368 134	327 568
Johannesburg City Parks	737 022	688 207
Johannesburg Development Agency (Pty) Ltd	28 707	26 695
Johannesburg Metropolitan Bus Services (Pty) Ltd	504 212	506 354
Johannesburg Roads Agency (Pty) Ltd	896 443	816 774
Johannesburg Social Housing Company (Pty) Ltd	14 807	13 100
Metropolitan Trading Company (Pty) Ltd	143 670	211 158
Pikitup Johannesburg (Pty) Ltd	617 166	694 762
The Johannesburg Civic Theatre (Pty) Ltd	104 432	94 072
	3 414 593	3 378 690
Other subsidies		
Grant paid : Housing top structures	247 645	410 559
Grant paid : Other	22 352	85 170
	269 997	495 729
	3 684 590	3 874 419

Grants paid to MEs are utilised to fund capital and operational expenditure.

The grants paid are based on operating and capital budgeted amounts as approved by Council.

37. GENERAL EXPENSES

Advertising	23 498	11 398
Auditors remuneration	27 478	22 195
Bank charges	143 772	91 365
Consulting and professional fees	176 171	121 180
Consumables/Inventory expensed	13 484	29 821
Debt collection	258 622	63 754
Hire	24 708	27 302
Insurance	120 989	108 632
Conferences and seminars	15 111	16 480
Marketing	28 817	27 993
Printing and stationery	74 843	87 491
Security (Guarding of municipal property)	285 134	267 029
Software expenses	57 820	127 031
Staff welfare	10 655	33 701
Subscriptions and membership fees	14 229	15 021
Telephone and fax	54 103	57 329
Maintenance	239 270	446 559
Training	17 708	33 463
Travel - local	2 879	5 327
Travel - overseas	2 201	2 617
Contracted services	1 463 327	1 490 679
Utilities	816 194	614 022
Lease rentals on operating lease	63 408	65 786
ME - charges	27 723	13 040
Incident management fund	46 977	40 304
Other expenses	737 240	629 462
	4 746 361	4 448 981

Included in other expenses are guarantee fees relating to the COJ2 bond which is held at amortised cost.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
38. FAIR VALUE ADJUSTMENTS		
Other financial assets		
• Sinking fund	212 727	351 736
• Interest rate swap	(2 470)	4 018
• Other financial assets at fair value through profit or loss	-	21 361
	210 257	377 115
39. CASH GENERATED FROM OPERATIONS		
Surplus	1 375 882	1 446 249
Adjustments for:		
Depreciation and amortisation	2 031 783	1 882 509
Public contributions, Donated and contributed property	(3 612)	(97 578)
Fair value adjustments	(210 257)	(377 116)
Reversal of Impairment	(29 007)	(29 825)
Finance costs: liabilities from MEs	17 699	9 240
Allowance for impairment of current receivables	881 806	612 639
Impairment in MOE investments	67 622	102 312
loss/gain on sale of Assets	292 850	41 223
Retirement benefits net expenses	(13 834)	65 641
Changes in working capital:		
Inventories	(6 294)	35 353
Receivables	(1 686 156)	(2 101 683)
Adjustment of impairment of current receivable	(881 806)	(612 639)
Payables from exchange transactions	1 068 164	(900 385)
VAT Receivable	(209 529)	(39 429)
Unspent conditional grants and receipts	(317 374)	109 824
Increase/(Decrease) in deferred income	15 206	2 782
Increase/(Decrease) in Provision	(32 401)	(67 831)
Increase/(Decrease) in Consumer deposits	269	663
	2 361 011	81 949

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

40. COMMITMENTS

Commitments in respect of capital expenditure:

Contracted for

• Office equipment	-	471 793
• Infrastructure	2 844 997	943 518
• PPE Community	126 700	146 291
• Building	-	34 159
• PPE - Computer equipment	35 085	3 500
• Intangible assets	470 667	-
	3 477 449	1 599 261

Operating leases - as lessee (Fleet)

Minimum lease payments due

- within one year	4 902	145 272
- in second to fifth year inclusive	-	5 419
	4 902	150 691

Operating leases – as lessee (Buildings)

Minimum lease payments due

- within one year	65 937	61 052
- in second to fifth year inclusive	17 258	83 195
	83 195	144 247

Lease payments made throughout the year by respective Departments are included in the Statement of Financial Performance under General Expenses, refer to Note 37.

Operating lease smoothing and calculations are based on the contracts relating to operating leases of buildings held in the various Departments of the CJMM. The average leasing term for the CJMM is 4 years and the average escalation rate is 9%. Restrictions imposed on lease agreements are limited to those contained in individual contracts. A complete register of operating leases, as well as all the contracts are maintained by facilities management.

Operating leases – Land (Soccer City)

Minimum lease payments due

- within one year	75	75
- in second to fifth year inclusive	299	299
- later than five years	6 494	6 495
	6 868	6 869

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

41. CONTINGENCIES

Contingent Liabilities

Uninsured claims & litigations

1. Developmentnoms (Pty) LTD claim for an amount of R2 640 419.64 limited to R1 million. Plaintiff claims to have suffered damages to the extent of lost income for the full duration of the agreement concluded with the City. Pleadings have closed and the matter is awaiting set down.
2. Plaintiff brought summons against the City and Johannesburg Municipal Pension Fund for unpaid benefits for an amount of R1 431 580.48. The City disputes the claim. The city will enter an exception to the plea. The hearing of the exception has been set down on 21 June 2018. The hearing was not set down due to new development on the case.
3. Claim by Metropol Consulting Pty Ltd for the amount of R266 million for services rendered.
4. Claim by Riverside trading for a breach in the amount of R6 289 510 for allegedly failing to provide sufficient electricity for development after rezoning a property. The court dismissed the application and the parties agreed that the allocated time for trial was not sufficient as a result they are currently awaiting a new trial date.
5. Claim by Kenneth Corlette for the amount of R 17 000 000 relating to alleged damages for loss of amenity due to City approving certain land uses adjacent to the plaintiff's property. Trial date set for 7 August 2018 in preparation for trial.
6. There is a dispute the members of SALA Pension Fund lodged with the City of Joburg subsequent to their transfer to eJoburg pension fund to the value of R20 951 478.17. The court decided that if this matter should proceed there should be a joinder by all the affected parties.
7. The Plaintiff sued the City for damages for an amount of R5.8 million the Plaintiff alleges arose from the City's non enforcement of the by-laws. The City defended the action and filed its plea. A trial date is being awaited.
8. Fundi Communications claim against COJ for an amount of R952 126 for services rendered.
9. Great Life Trading claim for R 1 401 738 for monies to be paid by City for tickets. The plaintiff is a ticket vendor hence claiming the loss of business. No trial date has been provided to the City.
10. Project Sizwe - WiFi versus The City of Johannesburg. In this application, the Action, the Defendant is claiming a certain amount of R40 million in relation to the signed Sponsorship Agreement. The matter is pending before Arbitrator.
11. The applicants brought an application for a declaratory order for the payment of travel time. The matter was ventilated at court and judgment was granted against the City ordering the city to pay for travel time. The City is appealing the decision. The attorneys and advocates are preparing application for leave to appeal. The value of the claim is R2 381 649.00.

Contingent assets

1. Claim for R1 698 400 relating to summons issued against Graffiti Impact. The defendant has raised an issue that the City is not entitled to that money and has asked the court to declare that section of the By-Laws to be null and void. A consultation has been scheduled with the junior and senior counsel to prepare a replication.
2. The City submits that it overpaid Questek in another contract for an amount more than R70 Million. Pleadings are still being exchanged between the parties regarding this matter. Refer to provisions for the details of this case.
3. Claim for R20 000 000 instituted by the COJ and Bus Operating Company and others against an attorney whom is appropriated money to be used by the operators to invest in BOC.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

42. PRIOR-YEAR ADJUSTMENTS

The reclassification(s) and correction of the error(s) resulted in the restatement of comparative figures as follows:

Statement of Financial Position	Note	As previously reported	Reclassification	Correction of errors	Restated
	R '000	R '000	R '000	R '000	R '000
CJMM - Receivables from exchange transactions		4 935 242	-	88 636	5 023 878
CJMM - Receivables from non-exchange transactions		1 025 512	-	28 932	1 054 444
CJMM - Property, plant and equipment		39 192 762	-	(401 911)	38 790 851
CJMM - Intangible Assets		312 527	-	5 217	317 744
CJMM - Other financial assets		40 564	-	15 204	55 768
CJMM - Trade and other payables		(10 189 296)	-	1 908 045	(8 281 251)
CJMM - Provision		(19 406 919)	-	(58 600)	(19 465 519)
CJMM - Accumulated Surplus-2015/16 Opening Balance	-	(27 767 680)	-	(1 481 272)	(29 248 952)
		(11 857 288)	-	104 251	(11 753 037)

Statement of financial performance	Note	As previously reported	Reclassification	Correction of errors	Restated
	R '000	R '000	R '000	R '000	R '000
CJMM - Finance Income		(1 374 052)	-	(403)	(1 374 455)
CJMM - Licences and permits		(3 648)	3 648	-	-
CJMM - Other revenue		(684 890)	(3 648)	(2 602)	(691 140)
CJMM - Depreciation and amortisation		1 757 823	-	124 686	1 882 509
CJMM - Debt Impairment		788 672	-	(176 033)	612 639
CJMM - Finance Costs		2 449 399	-	14 976	2 464 375
CJMM - Contracted services		1 495 303	(1 495 303)	-	-
CJMM - Grants and subsidies		(8 986 924)	-	(107 131)	(9 094 055)
CJMM - General Expenses	-	2 911 422	1 495 303	42 256	4 448 981
		(1 646 895)	-	(104 251)	(1 751 146)

The correction of the error(s) results in the restatement of comparative figures as follows:

Management provides explanations for prior period adjustments which are considered material.

Receivables from non Exchange transaction, Trade and other payables and debt impairment

The error resulted from the correction of credit balances in consumer debtors which were incorrectly accounted for in the previous year.

Property Plant and equipment(PPE) and depreciation

This error is due to assets which were completed in the previous financial year but only capitalised in the current year. This resulted in the understatement of depreciation and overstatement of PPE.

Provisions and finance cost

The restatement resulted from the adjustment of the interest relating to consumer accounts which were affected by the outcome of the conaught court case. The interest was not accounted for in the prior year

The above errors were identified in the current financial year and were adjusted retrospectively.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

43. RISK MANAGEMENT

The CJMM, through Group Treasury and Finance Strategy unit (Treasury) manages financial risks through usage of two portfolios comprising of financial instruments. For purposes of this disclosure, portfolios are assigned Portfolio 1 and 2. Portfolio 1 is managed internally by the CJMM while Portfolio 2 is outsourced to a specialist Fund Manager.

Portfolio 1 Overview

Effective financial risk is vital to CJMM. The realisation of the CJMM's objectives toward service delivery depends on CJMM's sound management of financial risks which enable the City to anticipate and respond to changes in the market environment as well as making informed decisions under conditions of uncertainty.

The CJMM is exposed to the following financial risks from the use of financial instruments:

- Liquidity risk and Concentration risk;
- Market risk;
- Credit/Counterparty risk

To ensure the execution of, and compliance to overall risk management policies and guidelines, CoJ plays a focal role in:

- The maintenance of sound liquidity levels such that optimal returns on surplus cash are realized and interest expenses minimized,
- Ensuring that CJMM's Credit rating is maintained or improved by ensuring that financial risk ratios fall within required limits,
- Ensuring sustainable financial viability of COJ by avoiding the occurrence of uncontrolled losses that could arise as a result of exposure in the financial markets with the overall aim of protecting CJMM's financial position,
- Providing Council with reasonable assurance that financial risks the CJMM is exposed to are identified and, to the best extent possible, mitigated and controlled.

The City, identifies, quantifies and sets up control measures to mitigate financial risks to an acceptable level.

Financial Risk Management Framework

The Risk Management Framework serve to raise awareness, inform and guide the Group on its approved approach to risk management. The framework, which is reviewed on a continuous basis in line with best market practices, seeks to assist the Group in the effective identification, evaluation and control of financial risks that may impact upon the realization of corporate, mayoral and service delivery objectives and priorities that the Group has set itself to achieve.

Council, through the CFO's forum, has overall responsibility for the establishment and oversight of the CJMM's risk management framework. CFO's forum, in this regard, is responsible for developing and monitoring the CJMM's financial risk management policies. CFO's forum reports regularly to the Mayoral Committee and Section 79 on its activities.

The CJMM's financial risk exposures are managed by the Treasury Unit. The CJMM's activities expose it to a variety of financial risks. The municipality's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the CJMM's financial performance. CJMM recognises that an effective risk management function is fundamental to its business. Risk awareness, control and compliance are embedded in Treasury's day-to-day activities.

Liquidity and Concentration Risk

Liquidity Risk, refers to the risk that CJMM may not meet its short term obligations when they fall due. Management of liquidity risk is particularly important as it ensures that capital and operating expenditure is met. Treasury enters into liability obligations to bridge funding gaps arising from both capital and operational expenditure with the aim of ensuring that CJMM meets its liability obligations when they fall due.

For each financial year, Council approves a funding plan that minimizes liquidity risk. CJMM manages both the long-term and short-term cash requirements, with surplus funds from operations being invested in short term money market instruments.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

43. RISK MANAGEMENT (continued)

Long-term liquidity risks arising from capital project initiatives are managed through issuance of long-term debt in the form of CJMM bonds or long term loans or a combination of the two. Both Short-term and Long-term borrowings are approved as per the budget and the banking services contract.

The table below indicates approved facilities as at end of June 2018:

Details	Approved Funding R'000 000	Total Utilised R'000 000	Available for use R'000 000
Short-Term Borrowings			
Short term Borrowings	5 650	3 000	2 650
Long-Term Borrowings			
Long term borrowing	2 998	2 998	-
Total	8 648	5 998	2 650

Short-term liquidity constraints are managed through two types of short-term funding methods:

- i) General Banking Facilities (overdraft) and
- ii) Commercial Paper Issuance.

CJMM's ensures that all short term facilities utilized within the financial year are paid before the end of the financial year in Compliance with Section 45(4) (a) of the MFMA. A cash management policy for managing its short-term cash flows and cash balances in a cost-effective manner is in place. The cash management policy assists the Group in managing its liquidity risk through the use of cash projection models with the aim of minimizing variances between projected and actual cash usage.

Liquidity risk is also linked to Concentration risk which could be defined as the probability of high cash outflow arising from concentration of debt obligations payable around the same period. If not properly managed, concentration risk can lead to default risk.

Funding Debt Maturities

- - - - -

Capital Redemption Analysis of Non Derivative Liabilities as at 30 June 2018

Class	Balance	Due in less than a year R'000 000	Due in one to two years R'000 000	Due in two to three years R'000 000	Due in three to four years R'000 000	Due in four to five years R'000 000	Due in more than five years R'000 000
Floating Rate Loans		-	98	65	58	55	398
Fixed Rate Loans		-	663	742	1 637	833	15 344
		-	-	-	-	-	-

Maturity Analysis of Investments

The table below shows the maturity profile of investments as at 30 June 2018

Investment type	Balance	Due in less than a year R'000 000	Due in one to two years R'000	Due in two to three years R'000	Due in three to four years R'000	Due in four to five years R'000	Due in more than five years R'000
Call Deposits		1 105	-	-	-	-	-
Short term		92	-	-	-	-	-
		-	-	-	-	-	-

Market risk

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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43. RISK MANAGEMENT (continued)

Market risk is the risk that changes in market prices, such as interest rates and commodity prices will affect the CJMM's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable risk parameters, while optimising the CJMM's service delivery objectives. GRAP 104 requires entities to disclose sensitivity analysis for each type of market risk as shown in the sections below. Interest rate risk is the main category of market risk which affects CJMM.

Interest rate risk

This refers to the risk that the value of a financial instrument will change due to a change in:

- i) the absolute level of interest rates;
- ii) in the spread between two rates;
- iii) in the shape of the yield curve or in any other interest rate relationship.

CJMM's floating rate liabilities are exposed to interest rate risk in terms of both cash flow and fair values.

Interest Rate Fair Value Sensitivity Analysis for Floating Rate Liabilities

The fair values of the CJMM's floating rate liability portfolio are sensitive to interest rate changes. The fair values of these liabilities are based on projected cash flows calculated using market projected forward rates. The projected cash flows are then discounted using market implied discount factors.

The table below shows how the fair values of floating rate liabilities change on the basis of the following assumptions:

- The base case interest rate is at current levels (0%)
- A range of values between two percent points upward and one percent point downward movement point in interest rates. Management generally expects interest rates to rise in the future.

Fair value sensitivity to the interest rate movement/shift for Floating Rate Loans R'000 000

Class	Fair Value	-1%	-0.50%	0	0.50%	1%	1.50%	2%
Floating Rate Loans	661	650	655	661	666	671	676	681

Fair Value Sensitivity Analysis of Variable Rate Liabilities

The fair value sensitivity analysis of variable rate liabilities shows that a 1 percentage point increase in interest rates will increase the fair value of floating rate liabilities by 10 million and a 1 percentage point decrease in interest rates will decrease the fair value of floating rate liabilities by R10 million.

Interest Rate Cashflow Sensitivity Analysis

The Floating rate tables below shows the cash flow sensitivity analysis for floating rate liabilities. The sensitivity analysis is based on the following assumptions:

- The base case interest rate is at current levels (0% changes)
- A two percent upward and one percent downward movement in interest rates.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

43. RISK MANAGEMENT (continued)

Cash flow sensitivity analysis R'000

Loan name	Institution	Nominal	Issue date	Cash Flow	Rate	Rate option	Interest rate shift						
							-1%	-0.50%	0%	0.50%	1%	1.50%	2%
DBSA 13541-1	DBSA	25 276	31 Mar-02	30-Sep-18 3 months JIBAR + 2.535%	Floating		2 988	3 017	3 045	3 074	3 074	3 131	3 160
		-		31-Dec-18			2 942	2 968	2 968	3 019	3 019	3 070	3 095
		-		31-Mar-19			2 888	2 910	2 932	2 954	2 954	2 997	3 019
		-		30-Jun-19			2 845	2 864	2 883	2 902	2 902	2 940	2 959
		-					-	-	-	-	-	-	-
DBSA 102761-1	DBSA	300 000	20-Aug-09	31-Dec-18 6 months JIBAR + 2.85%	Floating		24 743	25 467	26 192	26 917	26 917	28 366	29 096
		-		30-Jun-19			24 372	25 054	25 736	26 418	26 418	27 782	28 464
		-		31-Dec-19			24 296	24 958	25 620	26 281	26 281	27 604	28 267
		-		30-Jun-20			23 830	24 453	25 077	25 700	25 077	25 947	27 570
		-					-	-	-	-	-	-	-
DBSA 103345-1	DBSA	345 000	17-Apr-09	31-Dec-18 6 months JIBAR + 2.96%	Floating		29 235	30 067	30 899	31 731	31 731	33 394	34 226
		-		30-Jun-19			28 771	29 552	30 333	31 114	31 114	32 676	33 457
		-		31-Dec-19			28 648	29 404	30 160	30 917	30 917	32 429	33 185
		-		30-Jun-20			28 073	28 783	29 494	30 204	30 204	31 626	32 336
		-					-	-	-	-	-	-	-
SCMB 200m	SCMB	3 275	19-Sep-03	30-Sep-18	CPI plus Margin	Floating	3 243	3 259	3 275	3 292	3 292	3 324	3 341
		-					-	-	-	-	-	-	-
		-					-	-	-	-	-	-	-
		-					-	-	-	-	-	-	-
		-					-	-	-	-	-	-	-
		-					-	-	-	-	-	-	-
		-					-	-	-	-	-	-	-

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

43. RISK MANAGEMENT (continued)

-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

Annual Financial Statements for the year ended 30 June 2018

Figures in Rand thousand	2018	2017
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	2019	2020	2021	2022	2023	2024	2025
1. Operating Income	100	100	100	100	100	100	100
2. Operating Expenses	70	70	70	70	70	70	70
3. Operating Profit	30	30	30	30	30	30	30
4. Non-Operating Income	0	0	0	0	0	0	0
5. Non-Operating Expenses	0	0	0	0	0	0	0
6. Pre-tax Income	30	30	30	30	30	30	30
7. Tax Expense	10	10	10	10	10	10	10
8. Net Income	20	20	20	20	20	20	20
9. Other Comprehensive Income	0	0	0	0	0	0	0
10. Comprehensive Income	20	20	20	20	20	20	20
11. Other Comprehensive Expenses	0	0	0	0	0	0	0
12. Other Comprehensive Income	0	0	0	0	0	0	0
13. Other Comprehensive Expenses	0	0	0	0	0	0	0
14. Other Comprehensive Income	0	0	0	0	0	0	0
15. Other Comprehensive Expenses	0	0	0	0	0	0	0
16. Other Comprehensive Income	0	0	0	0	0	0	0
17. Other Comprehensive Expenses	0	0	0	0	0	0	0
18. Other Comprehensive Income	0	0	0	0	0	0	0
19. Other Comprehensive Expenses	0	0	0	0	0	0	0
20. Other Comprehensive Income	0	0	0	0	0	0	0
21. Other Comprehensive Expenses	0	0	0	0	0	0	0
22. Other Comprehensive Income	0	0	0	0	0	0	0
23. Other Comprehensive Expenses	0	0	0	0	0	0	0
24. Other Comprehensive Income	0	0	0	0	0	0	0
25. Other Comprehensive Expenses	0	0	0	0	0	0	0
26. Other Comprehensive Income	0	0	0	0	0	0	0
27. Other Comprehensive Expenses	0	0	0	0	0	0	0
28. Other Comprehensive Income	0	0	0	0	0	0	0
29. Other Comprehensive Expenses	0	0	0	0	0	0	0
30. Other Comprehensive Income	0	0	0	0	0	0	0
31. Other Comprehensive Expenses	0	0	0	0	0	0	0
32. Other Comprehensive Income	0	0	0	0	0	0	0
33. Other Comprehensive Expenses	0	0	0	0	0	0	0
34. Other Comprehensive Income	0	0	0	0	0	0	0
35. Other Comprehensive Expenses	0	0	0	0	0	0	0
36. Other Comprehensive Income	0	0	0	0	0	0	0
37. Other Comprehensive Expenses	0	0	0	0	0	0	0
38. Other Comprehensive Income	0	0	0	0	0	0	0
39. Other Comprehensive Expenses	0	0	0	0	0	0	0
40. Other Comprehensive Income	0	0	0	0	0	0	0
41. Other Comprehensive Expenses	0	0	0	0	0	0	0
42. Other Comprehensive Income	0	0	0	0	0	0	0
43. Other Comprehensive Expenses	0	0	0	0	0	0	0
44. Other Comprehensive Income	0	0	0	0	0	0	0
45. Other Comprehensive Expenses	0	0	0	0	0	0	0
46. Other Comprehensive Income	0	0	0	0	0	0	0
47. Other Comprehensive Expenses	0	0	0	0	0	0	0
48. Other Comprehensive Income	0	0	0	0	0	0	0
49. Other Comprehensive Expenses	0	0	0	0	0	0	0
50. Other Comprehensive Income	0	0	0	0	0	0	0
51. Other Comprehensive Expenses	0	0	0	0	0	0	0
52. Other Comprehensive Income	0	0	0	0	0	0	0
53. Other Comprehensive Expenses	0	0	0	0	0	0	0
54. Other Comprehensive Income	0	0	0	0	0	0	0
55. Other							

The fair value of financial instruments (for example, trading and available for sale securities) is based on quoted market prices at the balance sheet date or determined using valuation techniques.

The CJMM uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

To determine the fair values of floating rate instruments, CJMM uses market forward rates to estimate future interest and capital Cashflow, and then utilises market implied discount rates to calculate their present values.

Fair Value Hierarchy

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

43. RISK MANAGEMENT (continued)

In terms of GRAP 104, paragraph 118 and 119 there are different levels of fair values based on the extent that quoted prices are used in the calculation of the fair value. The fair value hierarchy applies to instruments reported at fair value on the statement of financial position.

Level 1: Fair value are based on quoted prices (unadjusted) in an active market for identical financial instruments.

Level 2 Fair values are calculated using valuation techniques based on observable inputs either directly or indirectly other than level 1 inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: This category uses inputs for the asset or the liability that are not based on observable market data (unobservable inputs).

Credit/Counterparty Risk

CJMM invests surplus funds with financial institutions for yield enhancement purposes. The credit limit exposure table below depicts all investments with various counterparts as at 30 June 2018.

COUNTERPARTY CLASS	Approved Limit R'000 000	Operational		Ring Fenced		Total Exposure	Available for use	Percentage Utilised
		Call Deposits R'000 000	Fixed Deposits R'000 000	Call Deposit R'000 000	Term deposit R'000 000			
Domestic Banks	4 825	111	-	983	92	1 185	3 640	25
International Banks	1 050	2	-	-	-	2	1 048	-
Public Sector	1 200	4	-	-	-	4	1 196	-
Asset management firms	4 600	6	-	-	-	6	4 594	-
	11 675	123	-	983	92	1 197	10 478	25

Portfolio 2

Introduction and overview

CJMM has established a sinking fund to redeem its long term borrowings including listed bonds and bilateral loans. The fund is currently managed by an external fund manager.

The fund has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The fund manager has delegated authority to manage the fund in line with the council approved Portfolio Management Agreement.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. There is also a risk that the fund will not deliver upon its mandate.

Maturity analysis for financial instruments

The following are the contractual maturities of financial assets and liabilities, including estimated interest payments:

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand		2018	2017				
43. RISK MANAGEMENT (continued)							
Class	Trade NPV (Today) R'000 000	Due in less than a year R'000 000	Due in one to two years R'000 000	Due in two to three years R'000 000	Due in three to four years R'000 000	Due in four to five years R'000 000	Due in more than five years R'000 000
Settled Bond Assets	1 292	89	-	92	-	721	391
Class	Trade NPV (Today) R'000 000	Due in less than a year R'000 000	Due in one to two years R'000 000	Due in two to three years R'000 000	Due in three to four years R'000 000	Due in four to five years R'000 000	Due in more than five years R'000 000
FRN Assets	749	443	306	-	-	-	-
Class	Trade NPV (Today) R'000 000	Due in less than a year R'000 000	Due in one to two years R'000 000	Due in two to three years R'000 000	Due in three to four years R'000 000	Due in four to five years R'000 000	Due in more than five years R'000 000
FRA Liabilities	(1)	(1)	-	-	-	-	-
Class	Trade NPV (Today) R'000 000	Due in less than a year R'000 000	Due in one to two years R'000 000	Due in two to three years R'000 000	Due in three to four years R'000 000	Due in four to five years R'000 000	Due in more than five years R'000 000
Cash Asset	226	226	-	-	-	-	-
Class	Trade NPV (Today) R'000 000	Due in less than a year R'000 000	Due in one to two years R'000 000	Due in two to three years R'000 000	Due in three to four years R'000 000	Due in four to five years R'000 000	Due in more than five years R'000 000
Swap Assets	570	27	2	111	9	110	311
Swap Liabilities	(453)	(3)	(1)	(4)	(5)	(97)	(344)
	117	24	1	107	4	13	(33)
Class	Trade NPV (Today) R'000 000	Due in less than a year R'000 000	Due in one to two years R'000 000	Due in two to three years R'000 000	Due in three to four years R'000 000	Due in four to five years R'000 000	Due in more than five years R'000 000
Cash Collateral Liabilities	(152)	(152)	-	-	-	-	-

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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43. RISK MANAGEMENT (continued)

-	-	-	-	-	-	-	-
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Market Risk

Market Risk is the risk that changes in market prices such as interest rates, equity prices, foreign exchange rate and credit spreads (not relating to changes in the issuers credit standing) will affect the Fund's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Interest rate risk sensitivity analysis

The Fund is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates.

The sensitivity analysis reflects how changes in underlying interest rates affect the fair value of the financial instruments.

Fair Value Sensitivity Analysis

Asset Class	Fair Value Sensitivity to the interest rate movement/shift						
	R'000 000 -1%	R'000 000 -0.5%	R'000 000 0	R'000 000 0.5%	R'000 000 1%	R'000 000 1.5%	R'000 000 2%
Bonds	1 349	1 320	1 292	1 265	1 239	1 214	1 189
FRN	750	749	749	748	748	747	747
FRA	4	1	(1)	(4)	(6)	(8)	(11)
IRS	398	255	117	(15)	(142)	(264)	(381)
Cash	226	226	226	226	226	226	226
Cash collateral	(152)	(152)	(152)	(152)	(152)	(152)	(152)
Net	2 575	2 399	2 231	2 068	1 913	1 763	1 618

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities.

Mechanisms to mitigate operational risk include the following:

- appropriate segregation of duties between various functions, roles and responsibilities;
- reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified;
- contingency plans;
- ethical and business standards;
- risk mitigation

Valuation of financial instruments

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand 2018 2017

43. RISK MANAGEMENT (continued)

The fund measures fair values using the following fair value hierarchy:

- Level 1: Fair values of financial assets and financial liabilities are traded in active markets are based on quoted prices or dealer prices.
- Level 2: The fund uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, or estimation. Observable prices and model inputs are usually available in the market for listed debt, exchange like interest swaps that use only observable market data and require little management, judgment and/ traded derivatives and simple over the counter derivatives like interest rate swaps.

The table below analyses financial instruments measured at fair value as at 30 June 2018:

	Level 1	Level 2		Total
Financial assets at fair value through profit or loss R'000 000				
Bonds	1 292	-	-	1 292
Floating Rate Notes	-	749	-	749
Forward Rate Agreements	-	(1)	-	(1)
Interest Rate Swaps	-	117	-	117
Nedbank collateral	(152)	-	-	(152)
Current account	226	-	-	226
	1 366	865	-	2 231

44. FRUITLESS AND WASTEFUL EXPENDITURE

Reconciliation of fruitless and wasteful expenditure

Opening balance	5 343	4 474
Fruitless and wasteful expenditure current year	9 064	869
Transfer to other debtors for verification	14 407	5 343

2018

GCSS

SARS Interest and penalties - R224 012

Economic Development

Deposit paid for rental of office space and never occupied

Interest charged on late payment of

Telkom account

Health - R201

Public safety JMPD - R10 835

Eskom account.

Social Development - R893

Public safety JMPD - R41 186

Housing - R 1 086 415

Transport - R333

Investigated cases of fruitless and wasteful expenditure amounting to R 30 428 754 are currently being presented at MPAC for recommendation to Council to condone the non-compliance.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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44. FRUITLESS AND WASTEFUL EXPENDITURE (continued)

2017

GCSS

Interest charged on late payment of Eskom account

Group Corporate and Shared Services - R35 255

Housing - R721 820

Social Development - R106 549

JMPD - R2 274

Interest charged on late payment of Telkom account

JMPD - R2 922.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

45. IRREGULAR EXPENDITURE

Reconciliation of irregular expenditure

Opening balance	1 855 963	1 150 022
Irregular expenditure current year	630 281	705 941
Transfer to receivables for recovery	-	-
	2 486 244	1 855 963

Irregular Expenditure current year movement

Contracts identified as irregular	628 747	654 345
Splitting of orders, quotes, invoices	-	60
Poor performance, BEE certificate, tax invoice, tax clearance - not submitted, not original or invalid	-	175
Awards to persons in service of state	-	49 059
Non-Compliance with SCM policies	1 534	2 302
	630 281	705 941

Non-compliance with section 116 of MFMA: Contracts

Contract was extended without complying with the provisions of section 116 of the MFMA in respect of contract extension.

Non-compliance with Circular 62 of the MFMA: Contracts

In terms of Circular 62, contracts may be expanded or varied by not more than 15% for all other goods and/or services of the original value of the

Splitting of purchase orders:

Goods procured through in an incorrect process by splitting the purchase orders to be below the R30K.

MBD Forms:

Required forms not submitted for awards granted.

BEE certificates, tax invoices:

All these documents were either not submitted, not original or the entity awarded the contract was not in possession of a valid one.

Non-compliance with normal SCM policies:

Goods or services procured without following SCM processes in the form of; not obtaining required authorisation from delegated authority, non-solicitation of required quotes, non/late submission of required documentations.

Investigated cases of irregular expenditure amounting to R 1 456 920 267 are currently being presented at MPAC for recommendation to Council to condone the non-compliance.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
46. UNAUTHORISED EXPENDITURE		
Reconciliation of unauthorised expenditure		
Opening balance	4 102 263	3 581 537
Unauthorised expenditure current year	346 586	520 726
	4 448 849	4 102 263

2018

Investigated cases of unauthorised expenditure amounting to R 2 406 576 000 are currently being presented at MPAC for recommendation to Council to condone the non-compliance.

2017

The year-to-date expenditure is over budget and is mainly due to the following reasons OPEX Overspending

Emergency Services - R 85 994 002

Housing department - R 132 046 000

Group Forensic Investigation Services - R12 123 000

Johannesburg Metropolitan Police Department - R 290 563 000.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
--------------------------	------	------

47. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organised local government

Council subscriptions	9 476	11 923
Amount paid - current year	(9 476)	(11 923)
	-	-

Skills development levy

Opening balance	3 940	3 672
Current year subscription / fee	52 948	47 466
Amount paid - current year	(48 381)	(43 526)
Amount paid - previous years	(3 940)	(3 672)
	4 567	3 940

Audit fees

Opening balance	843	2 080
Current year audit fee	27 539	22 067
Amount paid - current year	(27 033)	(23 304)
	1 349	843

PAYE and UIF

Opening balance	72 406	65 348
Current year payroll deductions	997 713	872 109
Amount paid - current year	(913 674)	(799 703)
Amount paid - previous years	(72 406)	(65 348)
	84 039	72 406

Pension and Medical Aid Deductions

Opening balance	121 755	111 542
Current year payroll deductions and council contributions	1 556 064	1 491 126
Amount paid - current year	(1 423 817)	(1 369 371)
Amount paid - previous years	(121 754)	(111 542)
	132 248	121 755

VAT

VAT receivable	420 702	211 173
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

47. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018. All amounts are disclosed in Rands and are not rounded to the nearest thousand.

30 June 2018

	Outstanding less than 90 days Rands	Outstanding more than 90 days Rands	Total R
Bora EC	2 816	22 380	25 196
Cele DW	1 474	195	1 669
Dewes DS	14 974	64 692	79 666
Dlanjwa	827	3 748	4 575
Khumalo NV	6 773	14 865	21 638
Lekgetho JK	10 943	23 029	33 972
Mabe MJ	509	135	644
Mahlangu GT	1 826	8 090	9 916
Maluleke MF	1 114	1 843	2 957
Matongo J	710	245	955
Matsemela RW	7 733	2 214	9 947
Mazibukwana M	269	1 471	1 740
McBason	1 635	14 244	15 879
Mofokeng J	941	6 711	7 652
Mokwena	1 395	36 815	38 210
Molete B	4 946	370 708	375 654
Nawane T	7 793	30 601	38 394
Ndlela MC	-	594	594
Netnow DM	22 664	172 798	195 462
Ngalonkulu MJ	11 868	56 025	67 893
Pietersen N	6 606	67 594	74 200
Tsotesti EM	2 719	28 249	30 968
Tsutsa LS	6 189	3 739	9 928
Xazi ZK	865	2 919	3 784
Xezwi MS	1 395	4 939	6 334
Zondo VE	48	20 761	20 809
	119 032	959 604	1 078 636

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

47. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

30 June 2017

	Outstanding less than 90 days (Rands)	Outstanding more than 90 days (Rands)	Total R
Bapela CB	2 130	41	2 171
Louw MA	818	2 577	3 395
Peitersen N	86	9	95
Zondo V E	1 011	59 828	60 839
Dewes D	1 287	42 217	43 504
Dewes D	8 264	31 245	39 509
Thomo N J	826	1 610	2 436
Zulu M H	407	127	534
Monakale S K	58	8 005	8 063
Dlamini M T	530	5 288	5 818
Clarke S N M	1 607	1 412	3 019
Madisakoane S	998	2 655	3 653
Dewes D	7 891	283 482	291 373
Damme J S	4 875	19 685	24 560
Damme B H	2 443	558	3 001
Mlauzi M S	681	88	769
Maisa N P	363	148	511
Netnown D M	9 409	207 217	216 626
Mofokeng J	380	2 499	2 879
Sohatsi B M	-	3 032	3 032
Abdullah F	2 331	27 362	29 693
Mahlangu G T	428	6 686	7 114
Tsotetsi E M	2 219	5 203	7 422
Ndlela M C	-	256	256
Molete J	25 852	319 417	345 269
McBason M	751	11 803	12 554
Makamo S S	163	718	881
Saohatsi B M	602	6 677	7 279
Mazibukwana M	255	745	1 000
Mathang F	825	5 390	6 215
Shezi N B	854	9 498	10 352
Nawane T	17 977	21 820	39 797
Ngwenya M L	41 007	49 093	90 100
Xaba N A	575	2 810	3 385
Ngalonkulu J M	21 611	15 847	37 458
	159 514	1 155 048	1 314 562

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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47. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

48. AWARDS TO CLOSE FAMILY MEMBERS OF PERSONS IN THE SERVICE OF THE STATE

During the year under review the municipality gave the following award to a person who is a spouse, child or parent of a person in the service of the state or has been in the service of the state for the previous twelve months

Name of the person (Service of the State)	Capacity	Name of the person/company award	Name of company	Amount in Rands
Moleboge Motsoetla	Perm (Health)	Oupa Ephraim Motsoetla	RebaHloniPhi Pty Ttd	178 700
Vulani Norchallent Maeko	Officer (SCM)	Tshepo Joseph Maeko	Maeko Property Development	633 536
Paruraman Govindsamy	Deputy Director	Namoshanie Mariemuthoo	Difined Printing and statistics	382 664
Sophie Nomvula Kotsedi	Officer	Johannes Pompo Kotsedi	Kotsedi	121 853
Mariam Moalusi	Perm (Health)	Samuel Maulusi	Temoso Trading 387 CC	13 680
Amelia Cynthia Marks	Perm (Revenue and CRM)	Andrew Richard Marks	Andrew's Blinds CC	4 651

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

2018

2017

49. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

Departments	Circular 62 & MFMA 116	Re 36(1)(a)(i) & (ii)	Reg 36(1)(a)(v)	Reg 36(1)(a)(b)	Reg 38(1)(b)
Housing	-	-	-	175	-
DPUM	-	-	10 526	77	-
GCSS	284 709	-	2 358	374 353	61 952
Office of the Executive Mayor	26 316	-	163 500	36 500	-
Group finance	-	1 391	23	-	-
Public Safety	-	33 246	4 823	10	-
Transport	-	-	-	424	-
Community development	-	-	6 614	-	-
Office of the Speaker	-	-	-	136	-
	311 025	34 637	187 844	411 675	61 952

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

50. HEDGING ACTIVITIES

During the financial year 2010/2011, CJMM entered into an interest rate swap by exchanging the Nedbank R1 billion 3 months JIBAR rate + 280 bsp for a 11.66% fixed interest rate.

Swap Details

Trade Date :	30 March 2011
Settlement Date:	29 March 2018
Nominal Amount:	R 1 billion
Fixed Rate:	11.66%
Payable:	Semi- annual

The cash flow hedge was ineffective for the year ended 30 June 2015 and it no longer met the criteria for hedge accounting as per IAS 39 par 88. The City of Johannesburg has therefore discontinued applying hedge accounting.

CASH FLOW RESERVE

Opening Balance	1 386	5 370
Distribution to profit and loss	(1 386)	(3 984)
	-	1 386
Interest expense recognised in the statement of financial performance during the financial period	-	13 977

Note that the SWAP value represents the clean fair value as at 30 June 2017 (All inclusive price less any SWAP interest accrual outstanding)

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

51. CHANGE IN ESTIMATE

Property rates

The change in estimate amount included in revenue are due to change in property values, implementation of appeal board decisions, property subdivisions and consolidations and property categories.

The change in estimate for property Rates and Taxes amounted to R15 388 189 (2017: R-455 302 820)

Traffic Fines

The amount relates to traffic fines accounted for as invalid in the previous year, this was due to these not being posted to traffic offenders within the prescribed period. These fines were subsequently collected by JMPD in the current year.

The change in estimates for fines amounted to R15 496 877.50 (2017: R22 459 678).

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

52. RELATED PARTIES

Relationships

Controlling entity

Other members of the group

City of Johannesburg Metropolitan Municipality
Johannesburg City Parks
Johannesburg Metropolitan Bus Services (Pty) Ltd
Johannesburg Social Housing Company (Pty) Ltd
City Power Johannesburg (Pty) Ltd
Johannesburg Development Agency (Pty) Ltd
Johannesburg Roads Agency (Pty) Ltd
Johannesburg Water (Pty) Ltd
The Johannesburg Civic Theatre (Pty) Ltd
The Johannesburg Fresh Produce Market (Pty) Ltd
Pikitup Johannesburg (Pty) Ltd
City of Johannesburg Property Company (Pty) Ltd
Johannesburg Metro Trading Company (Pty) Ltd
Golden Triangle Development Company (Pty) Ltd

Joint ventures

Related party balances

Amounts included in Loans,

Trade and other receivables regarding related parties

City Power Johannesburg (Pty) Ltd	5 239 366	3 995 692
City of Johannesburg Property Company (Pty) Ltd	583 197	324 816
Johannesburg City Parks	36 662	48 141
Johannesburg Development Agency (Pty) Ltd	409 814	321 632
Johannesburg Metropolitan Bus Services (Pty) Ltd	857 849	863 150
Johannesburg Roads Agency (Pty) Ltd	114 051	77 567
Johannesburg Social Housing Company (Pty) Ltd	164 264	152 251
Johannesburg Water (Pty) Ltd	4 236 275	4 712 898
Metropolitan Trading Company (Pty) Ltd	1 647 952	1 457 559
Pikitup Johannesburg (Pty) Ltd	1 015 237	1 012 677
The Johannesburg Civic Theatre (Pty) Ltd	817	933
The Johannesburg Fresh Produce Market (Pty) Ltd	65 674	59 141
	14 371 158	13 026 457

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand

52. RELATED PARTIES (continued)

Amounts included in Loans,

Trade and other payables regarding related parties

City Power Johannesburg (Pty) Ltd	570 648	180 264
City of Johannesburg Property Company (Pty) Ltd	593 503	614 401
Johannesburg City Parks	688 262	668 629
Johannesburg Development Agency (Pty) Ltd	855 742	1 109 294
Johannesburg Metropolitan Bus Services (Pty) Ltd	40 518	49 484
Johannesburg Roads Agency (Pty) Ltd	945 160	1 022 335
Johannesburg Social Housing Company (Pty) Ltd	340 535	248 009
Johannesburg Water (Pty) Ltd	210 653	6 046
Metropolitan Trading Company (Pty) Ltd	507 493	294 313
Pikitup Johannesburg (Pty) Ltd	1 097 290	1 091 986
The Johannesburg Civic Theatre (Pty) Ltd	9 122	2 168
The Johannesburg Fresh Produce Market (Pty) Ltd	154 308	82 161
	6 013 234	5 369 090

Related party transactions

Revenue from related parties

City Power Johannesburg (Pty) Ltd	533 868	494 140
City of Johannesburg Property Company (Pty) Ltd	36 960	11 225
Johannesburg City Parks	6 944	7 745
Johannesburg Development Agency (Pty) Ltd	41 112	6 482
Johannesburg Metropolitan Bus Services (Pty) Ltd	70 402	74 451
Johannesburg Roads Agency (Pty) Ltd	9 145	8 862
Johannesburg Social Housing Company (Pty) Ltd	5 381	921
Johannesburg Water (Pty) Ltd	545 115	553 143
Metropolitan Trading Company (Pty) Ltd	129 469	118 581
Pikitup Johannesburg (Pty) Ltd	83 056	77 348
The Johannesburg Civic Theatre (Pty) Ltd	196	672
The Johannesburg Fresh Produce Market (Pty) Ltd	5 105	7 305
	1 466 753	1 360 875

Operating Expenditure

City Power Johannesburg (Pty) Ltd	153 149	153 472
City of Johannesburg Property Company (Pty) Ltd	681 951	648 510
Johannesburg City Parks	796 794	753 846
Johannesburg Development Agency (Pty) Ltd	30 345	27 441
Johannesburg Metropolitan Bus Services (Pty) Ltd	506 522	508 824
Johannesburg Roads Agency (Pty) Ltd	940 312	856 785
Johannesburg Social Housing Company (Pty) Ltd	20 601	19 119
Johannesburg Water (Pty) Ltd	404 610	276 986
Metropolitan Trading Company (Pty) Ltd	246 614	265 646
Pikitup Johannesburg (Pty) Ltd	676 446	748 012
The Johannesburg Civic Theatre (Pty) Ltd	124 469	115 944
The Johannesburg Fresh Produce Market (Pty) Ltd	11 455	12 566
	4 593 268	4 387 151

Commitments

Johannesburg Development Agency (Pty) Ltd	2 179 787	264 046
Johannesburg City Parks & Zoo	-	49 239
Johannesburg Roads Agency (Pty) Ltd	408 623	3 263
	2 588 410	316 548

These commitments with related parties are also included in note 43

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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53. LOANS FROM MES

Non-current liabilities	426 338	418 320
Current liabilities	-	-
	426 338	418 320

Notional Accounts

The liability with the municipality entities were undertaken by the City of Johannesburg Metropolitan Municipality to cover the portion of the post retirement liability accrued for the employees of City of Johannesburg Metropolitan Municipality who were transferred to municipal entities when they were established. The amount of the liability was determined at 1 July 2003 and has been crystallised in the form of a notional loan account which earned interest and against which the municipal entities may claim benefit payments.

Medical Aid Notional loan account

Opening balance	159 004	149 764
Finance cost	10 462	11 063
Payments	(1 835)	(1 823)
	167 631	159 004

Gratuities Notional loan account

Opening balance	259 316	263 227
Finance cost	17 062	18 921
Payments	(17 671)	(22 832)
	258 707	259 316

54. OPERATING LEASE (LESSOR)

Minimum Lease Payments due

Within one year	16 364	14 851
In second to fifth year	70 366	55 818
Later than five years	151 102	159 495
	237 832	230 164

The rental income is in relation to the leasing of properties with an average escalation of 4,4% per annum.

55. CASH MANAGEMENT

Since 2013 financial year, Transport department within City of Johannesburg had cash losses due to alleged fraudulent activities and theft amounting to R15 162 166 (2017: R24 948 000). These losses incurred led to monies which were never credited into the City's bank account. Management is in the process of prosecuting personnel alleged to have undertaken fraudulent activities and/or have been negligent in the execution of their duties. Cases have also been opened with the SAPS with a view inter alia to recovering the monies. Investigations are almost complete and based on the outcome of these investigations actions have already been taken and will continue to be taken to improve controls and hold the relevant parties accountable. The loss is included under general expenditure.

Opening Balance	71 806	46 858
Current year losses	15 162	24 948
	86 968	71 806

56. EVENTS AFTER THE REPORTING PERIOD

Adjusting Events

City of Johannesburg Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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56. EVENTS AFTER THE REPORTING PERIOD (continued)

As per the delegation given to the Mayor by council, debtors write off can only be processed once they are approved by the Mayor. As at 30 June 2017 there were debtors fully provided for to the value of R127 666 598.04 that met all the requirements to be written off in accordance with CJMM credit control policy, however the approval process from the Mayor was pending. Subsequent to year end the Mayor approved debtors write off on the 1st of November 2017. The Financial Statements were adjusted accordingly to factor the write off as the approval took place during the subsequent events period, which is the period between year end and before Financial Statement are authorised for issue.

Debtors written off	-	127 667
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